

# Kentucky Revenue Cabinet



## Annual Report 2000-2001

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*Governor*  
Commonwealth of Kentucky

Dana B. Mayton  
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Revenue Cabinet

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*The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.*

**PAUL E. PATTON**  
GOVERNOR



**DANA B. MAYTON**  
SECRETARY

REVENUE CABINET  
**OFFICE OF THE SECRETARY**  
FRANKFORT, KENTUCKY 40620

January 15, 2002

The Honorable Paul E. Patton, Governor  
Commonwealth of Kentucky  
The State Capitol  
Frankfort, Kentucky 40601

Dear Governor Patton:

Pursuant to the provisions of Kentucky Revised Statute 12.110, I am pleased to present the Annual Report of the Kentucky Revenue Cabinet (KRC) for Fiscal Year 2000-2001.

An analysis of General Fund and Road Fund receipts, a summary of major KRC accomplishments for the fiscal year, and a description of KRC *EMPOWER Kentucky* initiatives including revenue projections and receipts are contained in the report.

KRC has entered into a new era in tax administration through the implementation of many state-of-the-art technological innovations. Funding for these innovations has been provided through your *EMPOWER Kentucky* program and the return on this investment has been remarkable. As KRC continues to modernize the agency, our employees will continue to pursue your goal of improving government effectiveness and efficiency.

We thank you for your continued support and confidence in our abilities and especially for your outstanding leadership of our great state.

A handwritten signature in cursive script that reads "Dana Bynum Mayton".

Dana Bynum Mayton, Secretary  
Kentucky Revenue Cabinet



AN EQUAL OPPORTUNITY EMPLOYER M/F/D

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# Revenue Receipts



(Reprinted from the  
Finance and Administration Cabinet's 2001  
4th Quarter Quarterly Economic & Revenue Report)

As shown in Table 1, combined tax and nontax receipts for the General and Road Funds increased by 2.0 percent over the combined receipts in FY00. Table 2 compares only tax receipts for the two funds which increased by 1.9 percent. Table 3 compares combined nontax receipts, which increased by 5.3 percent over the previous year.

**Table 1**  
**Total Receipts**  
(millions of dollars)

	FY01	FY00	Percent Change
General Fund	\$6,653.9	\$6,478.4	2.7
Road Fund	1,064.2	1,090.8	-2.4
<b>Combined</b>	<b>\$7,718.1</b>	<b>\$7,569.2</b>	<b>2.0</b>

**Table 2**  
**Tax Receipts**  
(millions of dollars)

	FY01	FY00	Percent Change
General Fund	\$6,377.9	\$6,200.5	2.9
Road Fund	992.1	1,031.5	-3.8
<b>Combined</b>	<b>\$7,370.0</b>	<b>\$7,232.0</b>	<b>1.9</b>

**Table 3**  
**Nontax Receipts**  
(millions of dollars)

	FY01	FY00	Percent Change
General Fund	\$276.0	\$271.9	1.5
Road Fund	72.1	58.6	23.0
<b>Total</b>	<b>\$348.1</b>	<b>\$330.5</b>	<b>5.3</b>

## General Fund

With weak growth in the fourth quarter, General Fund receipts for the year increased by a small 2.7 percent over those reported in FY00. Total General Fund receipts of \$6,653.9 million compare to \$6,478.4 million collected in FY00.

The sales tax growth rate continues to decrease from previous years. The growth rate for FY01 was 3.5 percent. Receipts of \$2,248.5 million compare to prior year receipts of \$2,171.4 million.

Performance in the individual income tax dropped significantly from the growth rate posted in FY00. The growth rate for FY01 was 2.8 percent compared to 6.7 percent in FY00. Receipts totaled \$2,778.5 million and compare to \$2,701.6 million collected last year. Recent increases in items such as the pension exemption (indexed for inflation) and the increase in the standard deduction are likely the cause of part of the decline.

The corporate income tax declined by 5.4 percent for the year. Receipts of \$289.9 million compared to \$306.4 million collected in FY00. FY00 receipts had decreased 1.8 percent from FY99 collections.

Coal severance tax collections continued their decline, posting a 2.5 percent decrease for the year. Receipts totaled \$141.6 million and compare to \$145.1 million collected during the prior fiscal year. The decline in coal severance tax receipts over the last several years does show signs of slowing.

Total property taxes experienced a moderate increase of 5.2 percent during this fiscal year. Receipts totaled \$407.5 million compared to \$387.3 million collected in FY00.

The growth in lottery receipts increased very slightly from the previous year. Receipts of \$157.0 million grew by 0.5 percent over the \$156.3 million remitted to the state last fiscal year.



# Revenue Receipts

The *all other* category finished the year with an increase of 3.4 percent. Receipts of \$630.9 million compare to \$610.2 million collected in FY00. Oil and natural gas severance taxes showed significant increases, while most other license and privilege taxes showed small declines.

Table 4 compares the growth rates in major General Fund categories and the fund as a whole for the entire year and the four individual quarters.

**Table 4**  
**General Fund Growth Rates**  
**for the Four Quarters and Full Year, FY01**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY01
Total					
Receipts	5.0%	1.6%	2.9%	1.8%	2.7%
Sales & Use	1.9	4.7	3.6	4.0	3.5
Individual					
Income	8.1	0.4	3.4	0.4	2.8
Corporate					
Income	23.8	-27.5	-10.8	-6.3	-5.4
Coal					
Severance	-6.6	-7.1	-1.8	5.8	-2.5
Property	20.6	-1.1	11.2	10.1	5.2
Lottery	3.1	5.3	4.1	-9.3	0.5
All Other	-8.2	21.3	-2.5	7.0	3.4

## Road Fund

Total Road Fund receipts declined by 2.4 percent during FY01. Total receipts of \$1,064.2 million compare to \$1,090.8 million collected in this fund during FY00.

The motor fuels taxes decline of 3.6 percent compares to a decline of 0.9 percent during FY00. Receipts of \$408.8 million compare to \$423.9 million collected during the previous fiscal year.

Motor vehicle usage tax receipts of \$396.8 million declined by 3.1 percent over the \$409.5 million collected in FY00. This compares to a growth rate of 9.0 percent experienced last year.

The performance of the weight distance tax was flat for the year with a growth of 0.0 percent. Growth last year was 7.1 percent. Receipts totaled \$75.1 million for this year and the last fiscal year.

The *all other* category increased slightly by 0.6 percent over the previous year. Total receipts in this category were \$183.4 million, which compares to \$182.3 million collected in FY00.

Table 5 displays the growth rates for the Road Fund and its major tax categories for the year as a whole and the four individual quarters.

**Table 5**  
**Road Fund Growth Rates**  
**for the Four Quarters and Full Year, FY01**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY01
Total					
Receipts	-4.6%	1.8%	-7.6%	-1.1%	-2.4%
Motor Fuels	-7.9	7.3	-7.5	-4.6	-3.6
Motor					
Vehicle					
Usage	-6.7	-0.3	-5.6	0.7	-3.1
Weight					
Distance	4.7	1.2	-2.1	-3.6	0.0
All Other	8.6	-6.8	-13.2	15.1	0.6

## EMPOWER Kentucky

The *EMPOWER Kentucky* revenue enhancement programs have continued and expanded during FY01. Collections during the fiscal year are shown in Table 6. *EMPOWER Kentucky* is a program that funds, among other things, specific initiatives within the Revenue Cabinet. These initiatives are designed to collect certain revenues that are owed to the commonwealth but are not voluntarily paid.

**Table 6**  
**EMPOWER Kentucky Collections During FY01**  
**(millions of dollars)**

Type Tax	Collections During FY01
Individual Income	\$25.0
Corporation Income	1.3
Sales and Use Tax	17.3
Property Tax	13.6
Other	1.2
<b>Total</b>	<b>\$58.4</b>

# Revenue Receipts



## GENERAL FUND

Fiscal Year	GENERAL FUND TOTAL RECEIPTS Receipts	Percent Change
2000-01	\$6,653,897,653	2.7
1999-00	6,478,385,032	4.5
1998-99	6,198,387,525	3.1
1997-98	6,011,806,561	6.1
1996-97	5,663,553,289	6.1
1995-96	5,336,883,824	3.5
1994-95	5,154,077,980	10.9
1993-94	4,647,078,322	3.0
1992-93	4,511,721,822	3.5
1991-92	4,360,835,365	1.1

## ALCOHOLIC BEVERAGE TAXES

Malt Beverage	
Fiscal Year	Receipts Percent Change
2000-01	\$38,854,920 1.2
1999-00	38,385,890 4.1
1998-99	36,870,323 2.6
1997-98	35,937,878 3.2
1996-97	34,830,419 1.0
1995-96	34,489,349 2.0
1994-95	33,812,169 3.9
1993-94	32,553,876 4.4
1992-93	31,172,541 2.5
1991-92	30,404,806 4.8

## Distilled Spirits

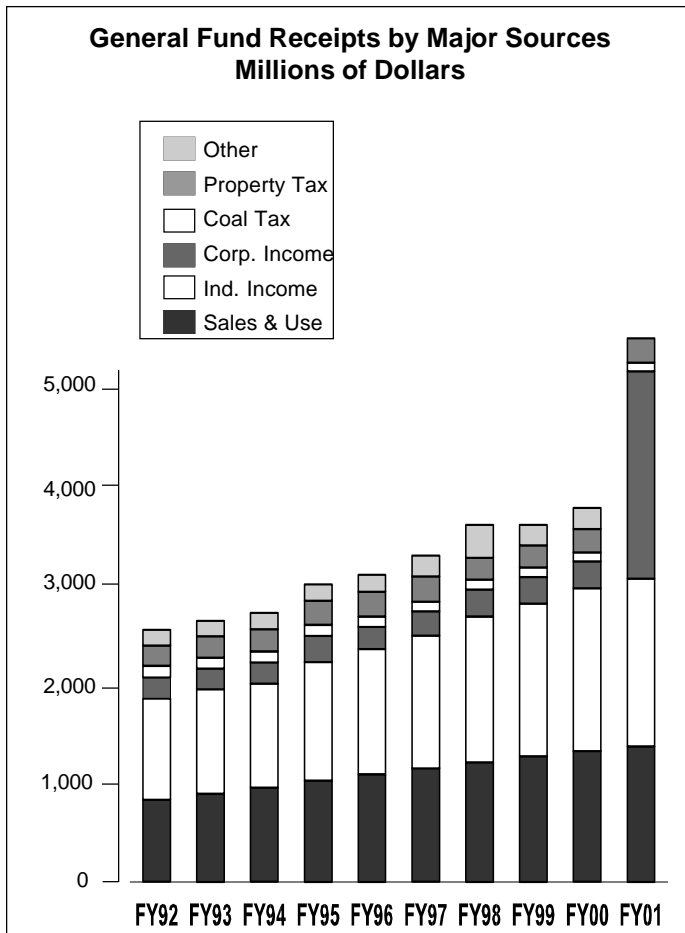
Fiscal Year	Receipts	Percent Change
2000-01	\$23,077,057	3.3
1999-00	22,349,780	4.3
1998-99	21,432,736	2.2
1997-98	20,979,849	2.1
1996-97	20,548,503	0.3
1995-96	20,493,441	3.0
1994-95	19,897,599	-0.3
1993-94	19,960,515	0.2
1992-93	19,923,344	2.2
1991-92	19,485,739	0.9

## Wine

Fiscal Year	Receipts	Percent Change
2000-01	\$7,846,391	2.3
1999-00	7,672,648	8.8
1998-99	7,049,136	7.6
1997-98	6,551,316	7.6
1996-97	6,085,828	8.5
1995-96	5,610,308	15.7
1994-95	4,847,726 <sup>1</sup>	7.9
1993-94	4,492,841	0.9
1992-93	4,454,161	4.2
1991-92	4,273,359	4.6

<sup>1</sup>Total corrected by Finance and Administration Cabinet.

**General Fund Receipts by Major Sources**  
Millions of Dollars





# Revenue Receipts

## CIGARETTE TAX<sup>1</sup>

Fiscal Year	Receipts	Percent Change
2000-01	\$14,007,582	-1.2
1999-00	14,184,888	-3.3
1998-99	14,673,839	-3.0
1997-98	15,130,443	-5.7
1996-97	16,044,967	2.3
1995-96	15,680,704	3.7
1994-95	15,126,270	5.9
1993-94	14,285,746	2.1
1992-93	13,994,590	-0.4
1991-92	14,044,608	-1.6

<sup>1</sup>The cigarette tax is levied at the rate of 3 cents per pack. These totals reflect the 2.5 cents per pack that are deposited into the General Fund. The remaining 0.5 cent per pack is dedicated to tobacco research and is deposited in the Tobacco Research Trust Fund.

## CORPORATION LICENSE TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$147,515,402	6.0
1999-00	139,127,819	10.5
1998-99	125,912,523	11.7
1997-98	112,763,161	4.9
1996-97	107,498,746	18.8
1995-96	90,515,391 <sup>2</sup>	-7.1
1994-95	97,449,950 <sup>1</sup>	18.8
1993-94	82,031,324 <sup>1</sup>	-5.8
1992-93	87,061,523	6.3
1991-92	81,926,247	0.3

<sup>1</sup>Total corrected by Finance and Administration Cabinet.

<sup>2</sup>Corrected for posting error by Finance and Administration Cabinet.

## COAL SEVERANCE TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$141,553,087	-2.5
1999-00	145,139,909	-6.0
1998-99	154,476,772	-5.7
1997-98	163,731,038	0.1
1996-97	163,545,844	-5.3
1995-96	166,101,045	-7.3
1994-95	179,116,944	-0.4
1993-94	179,844,327	-0.2
1992-93	180,117,668	-2.7
1991-92	185,102,332	-3.1

## INDIVIDUAL INCOME TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$2,778,541,444	2.8
1999-00	2,701,613,908	6.7
1998-99	2,532,005,348	4.7
1997-98	2,418,144,438	9.7
1996-97	2,205,022,964	6.3
1995-96	2,074,572,167	5.6
1994-95	1,964,843,490	13.6
1993-94	1,729,182,293	-0.2
1992-93	1,733,415,059	3.3
1991-92	1,678,525,589	-0.9

## CORPORATION INCOME TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$289,931,017	-5.4
1999-00	306,442,050	-1.8
1998-99	312,066,675	-6.5
1997-98	333,666,393	14.0
1996-97	292,753,126	2.8
1995-96	284,732,573	-16.5
1994-95	340,912,408	26.7
1993-94	269,067,231	5.6
1992-93	254,775,357	-6.0
1991-92	271,026,952	-15.1

## INHERITANCE AND ESTATE TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$ 83,461,499	12.0
1999-00	74,489,981	-8.5
1998-99	81,483,083	-22.8
1997-98	105,538,130	10.8
1996-97	95,287,282	17.0
1995-96	81,441,427 <sup>1</sup>	2.4
1994-95	79,511,634	4.4
1993-94	76,135,351	7.3
1992-93	70,965,470	-8.3
1991-92	77,354,648	12.6

<sup>1</sup>Phase-in of Class A beneficiary exemption began July 1, 1995.



# Revenue Receipts



## INSURANCE PREMIUMS TAX

Foreign Life Insurance Companies		
Fiscal Year	Receipts	Percent Change
2000-01	\$34,775,487	-3.2
1999-00	35,909,807	8.5
1998-99	33,085,292	-5.8
1997-98	35,116,933	6.1
1996-97	33,086,032	-8.5
1995-96	36,165,049	6.5
1994-95	33,966,941	-10.7
1993-94	38,057,960	11.1
1992-93	34,268,972	1.7
1991-92	33,703,047	15.7

## MINERALS AND NATURAL GAS TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$30,030,552	34.2
1999-00	22,369,419	18.0
1998-99	18,954,883	-6.1
1997-98	20,192,086	0.7
1996-97	20,051,609	15.4
1995-96	17,378,785	17.6
1994-95	14,783,614	-11.6
1993-94	16,718,727	8.1
1992-93	15,463,902	18.0
1991-92	13,105,878	-16.7

## Insurance Companies Other than Life

Fiscal Year	Receipts	Percent Change
2000-01	\$59,118,323	3.7
1999-00	57,000,964	4.7
1998-99	54,431,503	3.5
1997-98	52,600,230	4.5
1996-97	50,318,931	3.4
1995-96	48,687,419	7.0
1994-95	45,515,163	6.5
1993-94	42,720,970	5.1
1992-93	40,631,761	2.1
1991-92	39,781,751	3.3

## OIL PRODUCTION TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$3,358,036	13.2
1999-00	2,967,395	120.6
1998-99	1,344,942	-37.0
1997-98	2,135,211	-29.9
1996-97	3,044,497	15.1
1995-96	2,644,656	-5.0
1994-95	2,784,562	3.2
1993-94	2,697,560	-38.9
1992-93	4,413,136	-7.2
1991-92	4,756,184	-18.3

## LOTTERY RECEIPTS

Fiscal Year	Receipts	Percent Change
2000-01	\$157,030,000	0.5
1999-00	156,300,000	1.6
1998-99	153,800,000	0.5
1997-98	153,000,000	1.3
1996-97	151,000,000	2.7
1995-96	147,000,000	8.1
1994-95	136,000,000	19.3
1993-94	114,000,000	14.0
1992-93	100,000,000	0.0
1991-92	100,000,000	37.0

## PARI-MUTUEL TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$6,182,083	-7.0
1999-00	6,645,098	-7.4
1998-99	7,179,163	48.1
1997-98	4,845,921	-18.0
1996-97	5,911,958	-17.3
1995-96	7,148,951	-1.5
1994-95	7,256,986	18.3
1993-94	6,134,317	-1.8
1992-93	6,247,368	-8.8
1991-92	6,852,421	6.5



# Revenue Receipts

## PROPERTY TAXES—REAL ESTATE

Fiscal Year	Receipts	Percent Change
2000-01	\$171,524,695	2.5
1999-00	167,326,472	3.5
1998-99	161,723,137	4.8
1997-98	154,245,453	-9.3
1996-97	170,063,059 <sup>1</sup>	19.2
1995-96	142,728,406	7.2
1994-95	133,200,108	0.8
1993-94	132,125,477	4.6
1992-93	126,333,184	3.4
1991-92	122,146,269	5.7

<sup>1</sup>Some tangible property tax receipts were erroneously credited to real property receipts accounts.

## PROPERTY TAXES—INTANGIBLE

Fiscal Year	Receipts	Percent Change
2000-01	\$22,551,153	-0.8
1999-00	22,721,743	25.5
1998-99	18,103,920	-14.3
1997-98	21,129,328 <sup>1</sup>	-54.7
1996-97	46,631,437 <sup>1</sup>	-29.9
1995-96	66,489,089	-20.4
1994-95	83,479,482	7.9
1993-94	77,393,521	-0.5
1992-93	77,751,342	11.1
1991-92	69,961,863	-2.0

<sup>1</sup>Shares of stock were exempted from property tax beginning January 1, 1997.

## PROPERTY TAXES—TANGIBLE

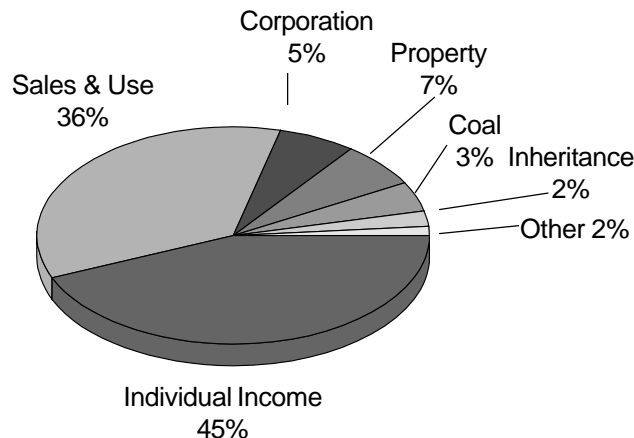
Fiscal Year	Receipts	Percent Change
2000-01	\$140,466,295	7.3
1999-00	130,960,896	4.3
1998-99	125,564,658	-0.2
1997-98	125,753,465	0.9
1996-97	124,637,468 <sup>1</sup>	-9.6
1995-96	137,812,773	20.8
1994-95	114,122,717	9.2
1993-94	104,501,822	10.8
1992-93	94,346,047	4.5
1991-92	90,281,298	7.3

<sup>1</sup>Some tangible property tax receipts were erroneously credited to real property receipts accounts.

## SALES AND USE TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$2,248,471,100	3.5
1999-00	2,171,397,969	4.1
1998-99	2,085,899,677	5.3
1997-98	1,981,297,580	5.2
1996-97	1,882,681,995	5.5
1995-96	1,783,881,316	6.2
1994-95	1,680,520,815	7.7
1993-94	1,560,085,519	6.7
1992-93	1,462,251,261	7.2
1991-92	1,363,690,026	5.2

## Makeup of FY01 General Fund



# Revenue Receipts



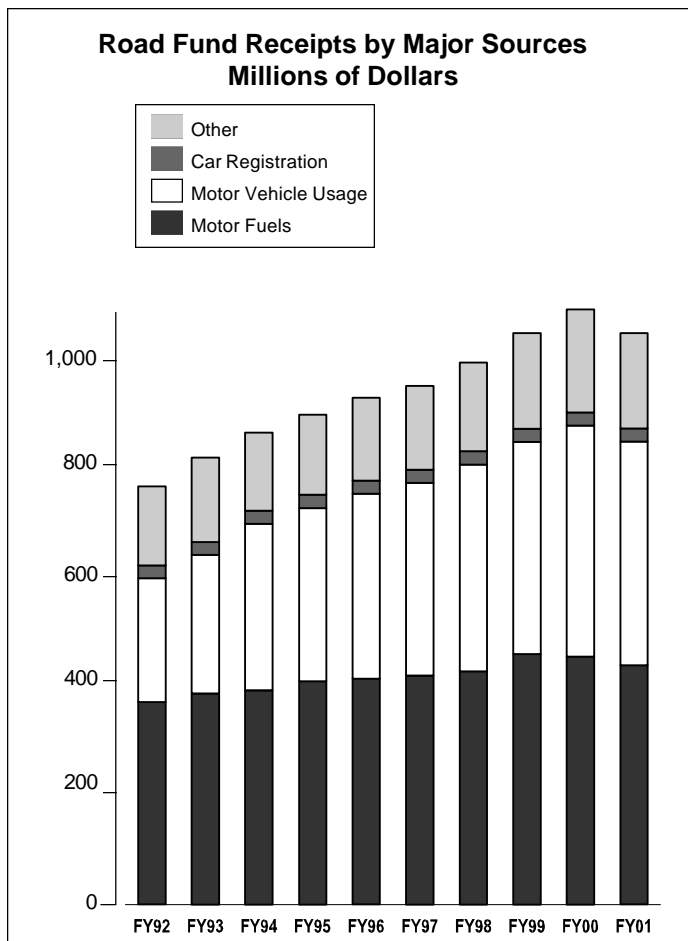
## ROAD FUND

Fiscal Year	ROAD FUND TOTAL RECEIPTS <sup>1</sup>	
	Receipts	Percent Change
2000-01	\$1,064,181,565	-2.4
1999-00	1,090,777,822	3.2
1998-99	1,056,596,153	4.4
1997-98	1,011,789,675	5.4
1996-97	960,183,780	2.2
1995-96	939,910,490	4.4
1994-95	900,619,387	4.4
1993-94	862,826,425	5.2
1992-93	820,411,480	4.9
1991-92	781,808,152	2.1

## MOTOR FUELS TAXES

Fiscal Year	Motor Fuels Normal	
	Receipts	Percent Change
2000-01	\$408,801,115	-3.6
1999-00	423,876,351	-0.9
1998-99	427,848,100	8.0
1997-98	396,123,781	1.4
1996-97	390,688,336	3.3
1995-96	378,142,941	1.3
1994-95	373,316,977	4.2
1993-94	358,435,307	1.4
1992-93	353,651,330	4.5
1991-92	338,517,487	3.4

<sup>1</sup>Does not include federal grants.



## Motor Fuels Normal Use and Surtax

Fiscal Year	Receipts	Percent Change
2000-01	\$15,492,738	-2.6
1999-00	15,905,613	-5.6
1998-99	16,853,163	-3.6
1997-98	17,473,744	14.1
1996-97	15,316,702	-32.1
1995-96	22,554,473	-2.2
1994-95	23,052,951	7.7
1993-94	21,399,126	3.9
1992-93	20,591,812	-1.9
1991-92	21,000,948	-6.0

## MOTOR VEHICLE OPERATOR'S LICENSE

Fiscal Year	Receipts	Percent Change
2000-01	\$5,592,769	-1.7
1999-00	5,689,329	5.3
1998-99	5,400,685	3.0
1997-98	5,241,595	-2.1
1996-97	5,355,648	4.8
1995-96	5,110,387	-1.2
1994-95	5,170,423	-3.5
1993-94	5,358,710	6.7
1992-93	5,020,733	-3.8
1991-92	5,221,356	3.6



# Revenue Receipts

## MOTOR VEHICLE REGISTRATIONS

Passenger Car Registration		
Fiscal Year	Receipts	Percent Change
2000-01	\$23,162,962	-1.4
1999-00	23,485,625	0.6
1998-99	23,356,526	-1.1
1997-98	23,604,679	1.4
1996-97	23,276,395	-0.5
1995-96	23,389,132	0.0
1994-95	23,398,303	-0.3
1993-94	23,473,690	1.7
1992-93	23,083,164	0.8
1991-92	22,893,363	1.6

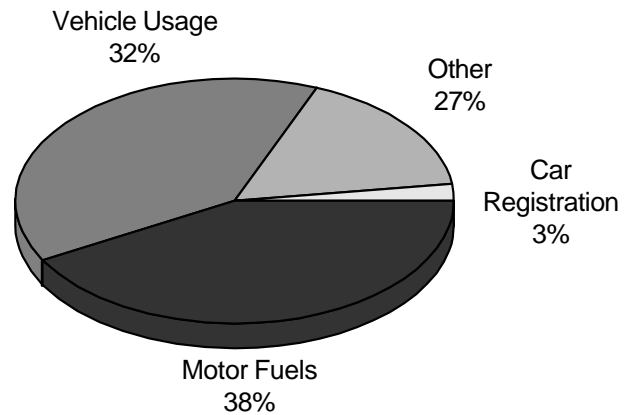
## MOTOR VEHICLE RENTAL USAGE TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$51,619,167	3.3
1999-00	49,957,851	12.4
1998-99	44,465,916	7.3
1997-98	41,450,720	13.3
1996-97	36,593,748	25.9
1995-96	29,054,964	26.5
1994-95	22,966,441	34.7
1993-94	17,055,319	40.7
1992-93	12,124,476	33.2
1991-92	9,103,767	25.3

## MOTOR VEHICLE USAGE TAX

Fiscal Year	Receipts	Percent Change
2000-01	\$345,120,799	-4.0
1999-00	359,437,723	8.5
1998-99	331,187,817	1.8
1997-98	325,308,554	6.7
1996-97	304,868,491	2.1
1995-96	298,585,859	5.2
1994-95	283,820,829	2.0
1993-94	278,157,347	19.1
1992-93	233,527,651	11.4
1991-92	209,619,192	2.2

**Makeup of FY01 Road Fund**



# Accomplishments



## Major KRC Accomplishments in Fiscal Year 2000-2001

Accomplishments during Fiscal Year 2000-2001 reflect employees' commitment to KRC's goals. These accomplishments emphasize the Cabinet's mission—to provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

Major accomplishments are highlighted in individual narratives in this report. Other specific accomplishments that underscore major progress toward KRC's goals are as follows:

### Taxpayer Service

- Offered extended hours during the period April 2-16, 2001, to better accommodate taxpayers with questions regarding individual income, withholding, and sales and use taxes.
- Conducted an individual income tax joint filing assistance program with the IRS on February 3, 10, 17, and April 14 in Louisville and Lexington KRC offices.
- Held its first joint problem solving day with the IRS on Saturday, June 16, 2001. Taxpayers received one-on-one tax help from IRS and KRC personnel.
- Processed 1,043,119 timely and correctly filed individual income tax returns requesting refunds by May 15, 2001.
- Issued 139,322 direct deposit refunds for individual income tax returns.
- Continued participation in the Sales Tax Simplification Project for the 21st Century, a multistate effort to simplify the administration of the sales and use tax to enable retailers to collect and remit tax in an efficient manner.
- Cross-trained employees through KRC tax workshops to provide improved assistance to taxpayers.
- Continued the partnerships with the University of Kentucky and the IRS in presenting up-to-date individual income tax information for approximately 1,400 Kentucky tax practitioners, CPAs, insurance adjusters, realtors, and other interested citizens of the commonwealth.



- Participated in the Annual KET Tax Information Call-in Show for the benefit of Kentucky taxpayers.

### Collection of Tax Revenues

- Worked with the Kentucky State Police on Operation Border Crossing and the Freddie Freeroader vehicle registration compliance programs. Both of these programs are aimed at detecting Kentucky residents who are attempting to avoid motor vehicle taxes. Under these programs 4,852 tax bills were issued, which generated collections of \$1,039,598 in property tax and \$32,409 in motor vehicle usage tax.
- Collected and distributed nearly \$29 million in local property tax revenues.
- Collected \$90,978,639 in delinquent taxes through KRC enforced collection programs.
- Registered 55 new taxpayers through the Voluntary Disclosure Program, which generated more than \$1.3 million.



### Business Practices

- Continued participation as a member in the American Collectors Association to improve the skills and professionalism of KRC collection officers.
- Processed more than five million documents, deposited more than \$7.3 billion in receipts, and made timely deposits into all funds.
- Processed approximately 338,500 UI-3 returns, and deposited approximately \$235 million in the Unemployment Insurance Fund for the Workforce Development Cabinet.
- Generated \$2,146,796 through the Federal State Match program with the IRS.
- Generated \$2,509,561 through the Pass-Through Entity program.
- Registered 932 businesses and collected \$15,993,785 through the Tax Gap Discovery section.





# Accomplishments

- Provided training for 188 KRC managers responsible for completing the newly implemented employee evaluation process.
- Added ACCESS to the Microsoft Office series of computer classes taught by in-house instructors.
- Coordinated JACADA training for 250 employees.
- Developed a personnel, payroll, and reporting database for the daily administration of the property valuation administrator's offices across the commonwealth.

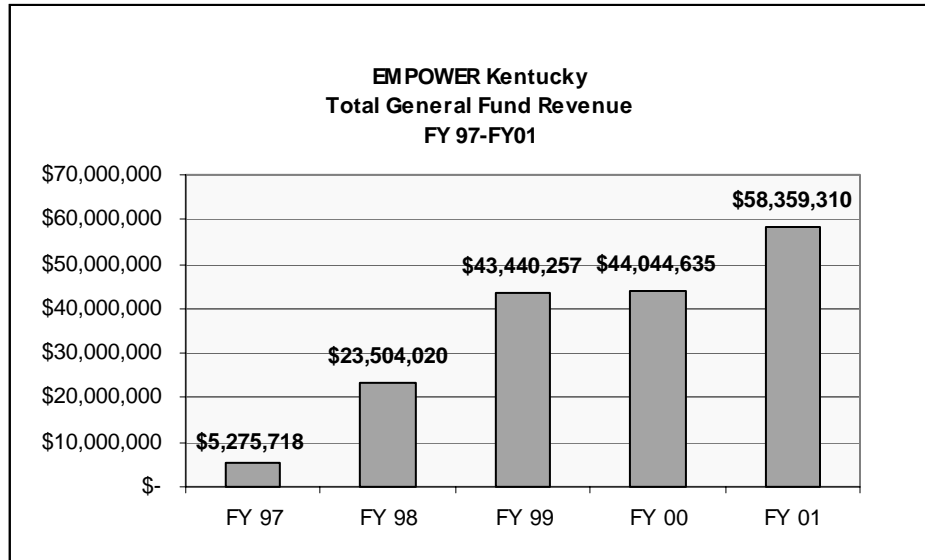
## Technological Advances

- Implemented a new streamlined Electronic Filing system for individual income tax. During Fiscal Year 2000-2001, 495,921 electronically filed returns had been received. This was an increase of 19 percent over Fiscal Year 2000. Processed 47,551 individual income tax returns filed through the joint federal/state TeleFile pilot project. Processed 45,797 individual income tax returns that were filed via the Internet. This was the second year for this program in which taxpayers were able to file their returns online.
- Participated in the development and implementation of the Revenue Evaluation and Decisions Support (READS) system, KRC's data warehouse. READS will continue to enhance KRC's ability to make strategic decisions to accomplish business priorities.
- Connected the Hopkinsville Taxpayer Service Center (TSC) to the Kentucky Information Highway (KIH) and re-networked the Paducah TSC when they relocated. This only leaves two field offices without Wide Area Network connections. Added several more PVA offices to those that are connected to the KIH so that the current total is 36 of the 120 counties.
- Completed the replacement of all Cabinet workstations with newly leased PCs that are on a three-year refresh cycle. This program allows KRC to



always have current technology on the desktop in order to provide staff the hardware needed to be productive.

- Upgraded systems management server in order to take advantage of more advanced software distribution functions. This provides a mechanism for software upgrades and patches to be distributed overnight without making a visit to each workstation for installation.
- Enhanced the functionality of the Vendor Offset Program. The Vendor Offset Program, administered by the Division of Collections, provides an efficient method to enhance General Fund savings by retaining payments to vendors who are indebted to the state. During Fiscal Year 2000-2001 the program generated \$2.8 million in direct statewide collections.
- Continued the implementation of JACADA with the conversion of OSCAR and online Journal Voucher systems from a *green screen* mainframe interface to a Web-based user interface.
- Participated in the General Systems Design and Architectural Reviews of the Master Taxpayer Index system.
- Replaced the obsolete Fair Oaks Local Area Network with a high-speed switched network that is in compliance with the Commonwealth Enterprise Standards. This highly responsive network meets the business requirements placed on the infrastructure by the FileNet viewer and other network intensive applications.
- Continued participation in the Treasury Offset Program to take advantage of recent changes in federal statutes that allow for the offset of federal tax refunds to state income tax liabilities. For Fiscal Year 2000-2001, KRC received \$1.9 million from the offset program.
- Processed \$2.7 billion in electronic funds transfer (EFT) payments for sales, withholding, and bank franchise taxes, representing a 12 percent increase over the previous year.



In January 1997, KRC received authorization to spend approximately \$36 million from the *EMPOWER Kentucky* Trust Fund. Expenditures for *Simplified Revenue Systems* are occurring over a planned seven-year time span. Various initiatives have been implemented since 1997 to improve processes while simultaneously increasing compliance and its resulting revenues.

### Customer Relationship Management—No Need to Take A Number

Other new features implemented as part of the modernization of tax return processing include the capability for staff to view sales and withholding returns electronically. When responding to taxpayer questions, employees no longer need to take down the telephone number and promise a call back. They no longer need to request the paper document from central files. Using the electronic image of the return, employees can respond to questions on the first phone call by viewing the scanned image of the tax return at their desktop. This capability is now in place in taxpayer assistance offices and in compliance areas as well.

This feature is not only a major leap forward in taxpayer service, but it means KRC does less paper handling so time can be directed to more productive activities. It also requires less manual data entry because the system captures the data electronically when scanned.

### EMPOWER Return On Investment (ROI) Impressive

During Fiscal Year 2000-2001, KRC's *EMPOWER Kentucky* programs resulted in \$58,359,310 in additional

General Fund revenue. Another \$24 million was collected during Fiscal Year 2001 for local taxing jurisdictions through property tax programs. The various tax gap programs in KRC are designed for better detection of nonfilers and reduction of the level of underreporting. The *EMPOWER* program has resulted in greater inter-agency cooperation at the state level and greater state-federal cooperation.

Through June 30, 2001, \$15.7 million of the *EMPOWER* trust funds have been expended. Approximately \$3.3 million in KRC operating funds have also been spent on *EMPOWER* initiatives since 1997. Those expenditures have resulted in \$174.6 million in additional General Fund revenue for the commonwealth. For every dollar spent on hardware, software, and professional services for KRC's *Simplified Revenue Systems* initiative, the commonwealth has received \$9.19 in return. This remarkable ROI is a testament to the hundreds of employees dedicated to making the program work.



### Cities, Counties, and Schools Reap the Rewards

An added benefit of the *EMPOWER* programs is the very favorable impact upon local taxing jurisdictions. Since 1997, the local portion of revenues from KRC's *EMPOWER Kentucky* property programs has totaled \$73.2 million. That figure represents additional money for cities, counties, schools, and other taxing jurisdictions as a direct result of *EMPOWER Kentucky*.





## Equity and Fairness

Five specific KRC projects were funded through *EMPOWER Kentucky*. The modernization of tax administration systems has been at the forefront. This modernization is referred to as the Kentucky Integrated Tax Entity System (KITES). Also included are the Tax Gap project, an improved Corporate Officer Assessment program, an improved Vendor Offset program, and an expanded Bank Levy Source program. All five programs have the same overall goal of establishing greater equity and fairness in tax administration while improving service and efficiency.

## Kentucky Integrated Tax Entity System

The Kentucky Integrated Tax Entity System (KITES) will integrate information by taxpayer entity in order to allow KRC to provide more efficient and complete taxpayer service. There are four individual components or subprojects: mail processing equipment; modernized front-end (MFE); the Revenue Evaluation and Decision Support (READS) system; and the Master Taxpayer Index (MTI). KITES will improve taxpayer service and reduce the cost of taxpayer compliance. It will provide KRC employees efficient and effective access to a complete view of a tax entity's data, thereby improving overall communications with taxpayers as well as improving accounting and audit controls.

## Revenue Evaluation and Decision Support

The Revenue Evaluation and Decision Support (READS) system is a data warehouse with decision support software that enables KRC to access relevant information for decision-makers from its vast amounts of data. The READS system will improve access to KRC's data and integration of KRC's data. It will enable the creation of information from KRC's data to more effectively pursue KRC's mission.

With the help of Covansys (formerly Complete Business Systems, Inc.), the READS first iteration data mart (each data mart is a subset of the data warehouse) was deployed in March of 2001. The source of the first iteration data mart is KRC's Compliance and Receivable System (CARS). The data warehouse was loaded with a snapshot of the CARS data as of June 30, 2000, and monthly incremental loads have continued since that time and will continue into the future.

With this new Web-enabled capability, data is more readily available for detailed analysis with little assistance from technical support. The warehouse not only provides current data, but also provides a historical perspective that allows users to compare trends month-to-month and year-to-year. This easy access to data facilitates the decision-making process and provides managers the ability to make effective policy changes and prioritize the types of work performed by employees.

There are a number of intangible benefits that KRC has already realized from READS. They are: improved KRC enterprise-wide view and understanding of CARS data; improved data quality and data access; historical perspective of CARS data; users trained in data warehousing methodologies and tool sets; and the ability to create ad hoc reports on demand with little or no help from technical support. The tangible benefits require a bit more time to realize. The expected benefit from READS in Fiscal Year 2002 is \$7 million. Procedures and plans have been documented to ensure this goal is met.

KRC's data warehouse development strategy was based on an iterative approach. This approach allows KRC to grow the system over time into a KRC-wide data warehouse while minimizing implementation risks and challenges. KRC is now using knowledge obtained from the successful implementation of the first iteration to develop the second iteration that will contain information from KRC's Kentucky Online System for the Collection of Accounts Receivable (KY OSCAR). With the addition of KY OSCAR data to the warehouse, cases and programs can be prioritized according to measures that are in line with KRC's mission. KRC will be able to target assistance to segments of the public with similar compliance challenges or information needs including automated responses. KRC, with Covansys' help, expects to deploy the second iteration in the first quarter of 2002.

## Master Taxpayer Index

The commonwealth awarded a contract to American Management Systems (AMS) in May 2000 to provide a Master Taxpayer Index (MTI) registration system based on AMS's ADVANTAGE Revenue application software.

Due to a significant increase in the level of effort required to successfully implement this application, the MTI project was suspended on May 17, 2001. The Cabinet will seek alternative approaches to achieve the original goals of the MTI.





## Statement of Alignment

KRC's Strategic Plan 2003-2006 is directly linked to Governor Patton's strategic goals and initiatives. It focuses on strengthening the operations and efficiencies of KRC.

KRC's current strategic planning process formally began on November 1, 2000. The methodology generally followed the planning template recommended by Governor's Office for Policy and Management. The project sponsors are the Secretary and members of KRC's senior leadership team. The extended team consisted of approximately 55 managers.

Considerable emphasis was placed on information gathering as a critical early step in the planning process. Surveys were developed of key customer and stakeholder groups in order to gauge their evaluation of our services and to gain an understanding of their expectations for the future. Groups surveyed included tax practitioners, businesses, individual taxpayers, property valuation administrators, county judge-executives, county clerks, county attorneys, school superintendents, current employees, city officials, and county sheriffs. Each of these groups has a significant stake in the administration of Kentucky's tax laws and their input is reflected in the plan. Also, during information gathering, the planning team looked at internal and external trends in key subject matters such as technology, taxation and litigation, economic and social issues, and program competencies.

From this information gathering, KRC developed a strengths, weaknesses, opportunities, and threats (SWOT) analysis. Internal strengths were aligned with external opportunities and internal weaknesses were aligned with external threats. A plan was developed which would capitalize on strengths and correct weaknesses.

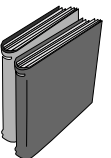
KRC's Strategic Plan 2003-2006 is based upon the principle that citizens voluntarily pay their fair share of taxes to support government. Rightfully, with that willingness come certain expectations—foremost of which is accountability. Citizens must know that taxes are used wisely. Citizens also have unambiguous expectations of KRC. Those expectations include a comprehensible account of what their tax obligations are and when they are due. They also expect an easy method to fulfill those obligations. They expect a tax collection system that is cost efficient—both for them and the government. They demand quick, accurate, and courteous responses to inquiries. Finally, citizens expect a rapid return of any overpayments they may have made.

In fulfilling its mission, the **driving force** in KRC is “**the customer**”—the citizen. KRC is not driven by interest rates, stock markets, research and development, competition, or technology. Although these factors may be considered during planning, the overarching driving force in KRC is the customer. Whether it be the governor, the legislature, small business owners, large corporations, individual taxpayers, local officials, attorneys, and CPAs, KRC determines the needs of these customers and stakeholders and sets strategies to meet as many needs as possible through careful allocation of resources within the context of its mandates and mission of fair and impartial administration of tax laws.

Governor Patton has established a goal to “set Kentucky on the path to achieving economic opportunity and a standard of living above the national average in 20 years.” One strategy to achieve that goal is to strengthen the efficiency and operation of government. KRC's strategic plan directly supports that strategy. As it enters the new millennium, KRC's goals and objectives are based upon its current situation analysis. KRC plans to increase e-government initiatives in order to make information and services more readily available to the public. A streamlined registration process to simplify interaction between taxpayers and KRC is envisioned. Improved security and privacy measures will be implemented for online transactions. These efforts are a continuation of *EMPOWER Kentucky* initiatives begun in 1997 and represent significant improvements in efficiency.

The plan also calls for improvement in the quality and timeliness of information available to policy makers. To assist policy makers in addressing tax fairness and adequacy of the state's revenue base, KRC will continue development of the data warehouse project known as the Revenue Evaluation and Decision Support (READS) system. The strategic plan further calls for significant workforce training in tax law, systems, software, and continuous quality improvement principles, all of which will improve efficiencies.

Another goal of the Patton administration is to establish a rational evaluation of where Kentucky ranks among its peer states by determining relevant benchmarks. KRC extended that concept to the cabinet level when setting performance indicators. Some performance indicators in KRC's strategic plan are recommended by the Federation of Tax Administrators for revenue agencies. Those indicators will enable us to benchmark our efficiency of operations in relation to other state departments of revenue.





# Strategic Planning

## KRC Vision

KRC's vision **for the future** is best described as a definition of success—success in implementing its strategic plan. Because Revenue is a service entity, its plan and its vision focus on goals that fulfill the needs of various constituents. Successful implementation of the Revenue Cabinet Strategic Plan 2003–2006 will result in...

### Improved Services to Taxpayers

- ★ Streamlined registration processes
- ★ Expanded e-government services
- ★ Greater security and privacy measures

### Improved Services to the Executive and Legislative Branches

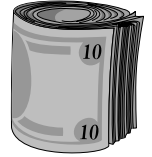
- ★ More timely information for policy decisions
- ★ More accurate information for policy decisions
- ★ More analytical services

### Improved Cash Flow to State Treasury

- ★ Accelerated tax receipts depositing
- ★ Shortened audit, resolution, and collection cycle time

## Increased Revenue to State Treasury

- ★ Increased identification and closure of tax gaps
- ★ Expanded public awareness programs



## Increased Efficiencies

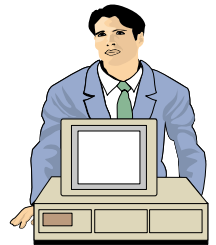
- ★ Improved management of resources

## Development of KRC's Leaders of the Future

- ★ Training and development in leadership skills
- ★ Broadened base of tax expertise
- ★ More cross-training of work force
- ★ Career path plans

## Improved Communications

- ★ More interaction with other state agencies
- ★ Better interaction with local officials
- ★ Better communication with employees





## Values

Recognizing that the administration of Kentucky's tax laws is a challenging and sometimes controversial responsibility, KRC supports its mission with a tax administration Statement of Values.

KRC's Statement of Values, drawn from its strategy and mission, represent the fundamental beliefs that shape the approach to policy and operations within a new framework. IT IS A COMMITMENT TO SERVICE VALUES.

★ **Commitment to High Standards of Service.** KRC is committed to raising the standards of tax administration by providing professional, courteous, accurate, and efficient service to taxpayers of the commonwealth as they try to voluntarily comply with Kentucky's tax laws.

This commitment to service—the core of KRC's tax administration philosophy will be a daily expression of KRC's values system. The high standards set for KRC on behalf of the commonwealth will guide strategies and assist in establishing goals and objectives.

★ **Commitment to Assisting Taxpayers.** KRC will continuously improve its efforts to educate taxpayers of their rights and responsibilities. Assistance will be given to facilitate easy and accurate reporting.

★ **Commitment to Employees and the Services They Provide.** KRC recognizes that its employees are its

greatest asset and they should be encouraged and empowered to use their creativity and resourcefulness in fulfilling the Cabinet's mission.

Employees must be dedicated to teamwork and professional development to ensure adequate response and efficient delivery of service.

★ **Commitment to Flexibility and Effectiveness in Serving Taxpayers.** KRC will shift resources and embrace new technologies to address changing needs and demands.

★ **Commitment to Fair and Impartial Administration and Enforcement.** KRC is committed to administering the tax laws of the commonwealth fairly, equitably, and impartially without regard to taxpayers' status, wealth, political affiliation, race, color, creed, or disability.

Thus, in an effort to earn total and absolute confidence of Kentucky's taxpayers regarding its fair administration of the tax laws, KRC will exhibit honesty and integrity in all dealings with taxpayers and avoid any situation or action which could result in the slightest perception of unfair practices or questionable behavior.

Prompting voluntary compliance, educating taxpayers of their responsibilities, and quality service will be KRC's daily commitment to Kentucky and its citizens.

***KRC will not lose sight of those it serves!***





# Taxpayer Service

## Office of Taxpayer Ombudsman

The Office of Taxpayer Ombudsman serves as the taxpayers' rights advocate when taxpayers or their representative contact the Ombudsman for assistance in the resolution of complaints and problems. It is the responsibility of the Ombudsman Office to coordinate a fair and equitable resolution with the taxpayer and the Cabinet.



Referrals on behalf of taxpayers are also received from fellow KRC employees, local officials, and other state or federal agencies. The Office also serves as liaison to both the executive and legislative branches of government, and routinely works with the Office of Constituent Services both in the Governor's Office and the Legislative Research Commission, and coordinates the responses to correspondence received by the Governor's Office regarding tax matters.

The staff worked on a variety of issues this year which included:

- coordinated the settlement of delinquent property tax bills with local officials and KRC staff;
- obtained waiver of civil penalties when reasonable cause for waiver was demonstrated;
- negotiated removal of wage and bank levies when the taxpayer would have suffered significant hardship as a result of the levy;
- coordinated release and removal of tax liens from taxpayer records when just cause was presented;
- assisted taxpayers with the resolution of a tax bill or pending refund;
- assisted taxpayers in their requests for a payment plan;
- assisted taxpayers in the Offers in Settlement program;
- assisted taxpayers in resolving issues regarding vendor offsets;
- developed guidelines for county officials regarding settlement of property tax; and
- conducted customer service training for county government employees.

As the advocate for the taxpayer, the staff of the Ombudsman Office serves on various Cabinet committees to provide input on forms, legislation, and training and educational programs.

## Use of Electronic Filing Increases

KRC reports that the use of electronic filing methods for 2000 individual income tax returns increased over the 1999 filing season. Electronic returns fall into one of three categories: TeleFile (telephone filing), Online (Internet filing), or Electronic (typically tax preparers). By the end of Fiscal Year 2000-2001, 495,090 returns had been filed electronically compared to 416,947 returns in 1999.

The number of returns filed electronically by preparers for Fiscal Year 2000-2001 increased to 401,864 compared to 332,700 in 1999. In its third year of offering TeleFile, KRC accepted 47,528 returns filed by phone. The number of taxpayers filing online in 2000 increased to 45,698 compared to 29,534 filed in 1999.



According to former KRC Secretary Mike Haydon, "Electronic filing is on the cutting edge of income tax processing. It is fast, convenient, and easy. Most returns received in the electronic format are processed in about two weeks, which is considerably quicker than mailing your return. We are gratified for the increase over the 1999 filing season and urge taxpayers to continue using this modern filing method. Electronic filing is more efficient and drastically reduces the number of errors in processing. It is a win-win situation for the Cabinet and the taxpayers."





## A Review of Tax Law Changes Enacted by the 2001 General Assembly

(This legislative summary was compiled by the staff of KRC's Division of Tax Policy)

**NOTE:** This summary of legislation enacted by the 2001 General Assembly is intended to present only general information concerning the major provisions of the legislation and should not be construed to represent a complete analysis or specific interpretations of the law changes. Information that is more specific will be provided to taxpayers as the legislative changes are implemented. Full text of enacted bills is available on the legislative home page <http://www.lrc.state.ky.us>.

The 2001 Kentucky General Assembly created, amended, or repealed numerous statutes during the regular session. A total of 579 bills and 333 resolutions were introduced. Of this total, 128 bills became law for an enactment rate of just above 22 percent.

Twelve bills and resolutions had substantive tax implications. The tax portion of each bill is described in this review. Effective dates are shown when specifically stated in the legislation. Otherwise, the changes are effective June 21, 2001.

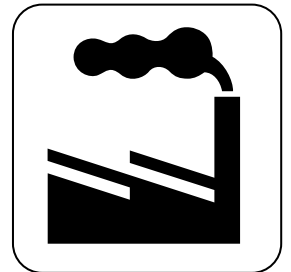
### Property Tax

**Tax Increment Finance (TIF) Zones**—New sections of KRS Chapter 65 were created to allow the development of TIF zones, based on contracts executed between a development agency and the city, county, and/or state (school districts may not participate). When a TIF zone is delineated, a base year is established, and any new tax revenue generated in excess of the base year revenue is dedicated to funding development within the TIF zone. “New revenues” are defined as “any tax revenues received by any taxing district or the state.” For example, this may include property tax, sales tax, income taxes, and local occupational taxes. (HB 238)

**Nonferrous Metals Futures Commodities**—(Effective Jan. 1, 2001) KRS 132.200 was amended to create a new classification of tangible personal property. This bill exempts nonferrous metals futures commodities held on warrant in a commodity warehouse from local taxation. In order to qualify, these metals have to conform to the quality, shape, and weight specifications set by the New York Mercantile Exchange's special contract rules for metals, and must be located or stored in a commodity warehouse as defined by statute. Now listed in the “state rate only” statute, KRS 132.200, these commodities would be subject to a 5 cent per \$100 state rate only, as inventory. (HB 284)

### Sales and Use Tax

**“Plant Facility” Defined**—(Effective Mar. 15, 2001, the provisions of this legislation apply retroactively to Sept. 28, 2000.) KRS 139.170 was amended to provide a definition of “plant facility” as it applies to the machinery for new and expanded industry exemption. The effect of this legislation is to preserve the long-standing administrative construction of this sales and use tax exemption to machinery that is for incorporation at an industrial plant site. To meet the definition of “plant facility” a location must be exclusively dedicated to manufacturing or processing production activities. Restaurants, grocery stores, shopping centers, or other retail establishments are specifically excluded from the definition of a “plant facility.” However, incidental retail activity at the plant site will not disqualify the facility from the exemption. This language effectively restores the exemption to its historical meaning prior to the Supreme Court decision rendered in *Camera Center, Inc. v. Revenue Cabinet*, Ky., 34 S.W.3d 39 (2000).



This bill also incorporates into statutory language the meanings of the terms “manufacturing” and “manufacturing process” that have been shaped by Kentucky courts and historically used by KRC to administer this exemption.

A final provision of the bill requires that any claim for a refund made after Sept. 28, 2000, for tax paid on machinery incorporated into a plant facility must conform to the meaning of “plant facility” as defined in this legislation. (HB 201)

### Uniform Sales and Use Tax Administration Act

A new section of KRS 139 was created to enable Kentucky to continue its leadership role in the Streamlined Sales Tax Project. The Streamlined Sales Tax Project is a 39-state effort to simplify and modernize the administration of the sales and use tax for all forms of commerce including catalog and Internet sales. The completion of this project should ensure the fair collection of taxes from remote and







# 2001 General Assembly

local sellers alike. The passage of this bill does not change existing state tax laws. (HB 367)

**Free Drug Samples**—(Effective July 1, 2001) KRS 139.472 was amended to allow for the exemption of free drug samples that are distributed to or from a physician's office. These samples must be of a type that are commonly recognized as substances or preparations prescribed and dispensed for use by external or internal application to the human body in the diagnosis, cure, mitigation, treatment, or prevention of disease. (HB 370)

## Income Tax

**Secondary Wood Products Industry Granted Priority Consideration for Economic Development Programs**—KRS 154.20-170 was amended to add the secondary wood products industry as defined in KRS 154.47-005(10) to the list of business entities that are given priority consideration for various economic development loan, grant, and incentive programs. (SB 47)

**Local Governing Bodies Establishing a Development Area May Impose a Job Development Assessment Fee**—(Effective for projects begun after Jan. 1, 2002) New sections of KRS 65.680 to 65.699 were created to provide that any governing body establishing a development area may impose a job development assessment fee (JDAF) on each person whose job was newly created at a project in the development area and who is subject to individual income tax under KRS 141.020. The total JDAF imposed by all governing bodies within the development area shall not exceed 3 percent of the employee's gross wages. Each person subject to the JDAF shall be entitled to a credit against Kentucky income tax withheld equal to the amount of JDAF imposed. The amount of JDAF for each

company shall be subject to approval by the Office of the State Budget Director, the Finance and Administration Cabinet, and KRC. Approval shall not be granted if it is determined that the project does not result in a net positive economic impact to the commonwealth. (SB 47)

**Kentucky Industrial Revitalization Act (KIRA) Tax Credits**—(Effective Mar. 20, 2001) KRS 154.26-010 and 154.26-080 were amended to add to the list of companies eligible for KIRA incentives, companies engaged in coal mining and processing operations in the state which employ 500 people and produce at least four million tons of coal annually. The approved company must mine or process coal that is subject to the Kentucky coal severance tax imposed by KRS Chapter 143. (HB 325)

**Tobacco Loss Assistance Program (TLAP)**—KRS 141.010(10)(q) and KRS 141.010(12)(k) were amended to exclude from income any amount received for TLAP

payments resulting from a reduction in the quantity of federal tobacco quota allotted. The exclusion applies retroactively to taxable years beginning after Dec. 31, 1999. (HB 209)

## Miscellaneous Taxes

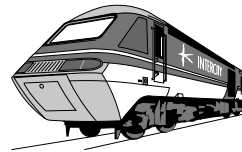
**Gray Market Cigarettes**—(Effective Jan. 1, 2002) A new section of KRS Chapter 248 was created to make the possession, sale, or distribution of gray market cigarettes illegal under state law. (HB 279)



**Marijuana Tax**—KRS 138.870, 138.880, and 138.882 were amended to provide that the tax on marijuana and controlled substances shall not be assessed until the dealer's taxable activity results in a criminal conviction or a guilty or Alford plea from an offender for violating KRS Chapter 218A. The bill allows KRC to file a notice of lien on issuance of a warrant or indictment. (HB 356)

## Resolutions

**Weight Distance and Usage Tax Study**—This resolution directs the Interim Joint Committee on Appropriations and Revenue to conduct a study of the weight distance tax and the usage tax on motor carriers and options for replacing lost revenue if the taxes are eliminated or modified. The committee is also directed to study the development of passenger and freight rail initiatives in the commonwealth. The resolution provides that the study shall not be conducted if the General Assembly enacts a resolution to study tax reform that would encompass these areas of interest, including the weight distance tax. Accordingly, this study may become part of the overall tax reform study directed by HJR 30. (HCR 8)



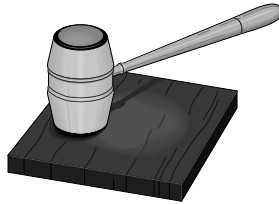
**Tax Policy Issues Subcommittee of the Appropriations and Revenue Committee**—The Tax Policy Issues Subcommittee will consist of eight members each from the Senate and House Committees on Appropriations and Revenue, including the respective chairs who will serve as co-chairs. Executive Branch participation was limited to a request for the governor to make recommendations and designate executive branch employees to present data, research, and testimony to the subcommittee.

The Tax Policy Issues Subcommittee is required to hold its first meeting no later than May 1, 2001, and report its findings to the Interim Joint Committee on Appropriations and Revenue prior to the start of the 2002 Regular Session. The subcommittee shall cease to exist April 15, 2002. (HJR 30)



## Legal Developments and Court Decisions

During this past year, the Division of Legal Services handled a substantial caseload involving a variety of tax and other issues at all levels of the court system and in administrative proceedings. A number of these cases have a potential substantial fiscal impact or resulted in decisions having significant precedential value or effect.



The division's attorneys also participated in the legislative process through such activities as the formulation and drafting of legislative proposals, the review of proposed legislation and service on KRC in-house legislative committees. In addition, the division reviewed and prepared regulations and documents expressing or explaining KRC policies and positions and assisted with the implementation of enacted legislation.

The Division of Legal Services handles a substantial number of cases presenting a variety of issues arising under or relating to Kentucky's tax laws. The division continues to experience an increase in both the complexity of the issues and amounts of money at stake in these cases.

The division represents KRC in all cases and appeals other than personnel, bankruptcy, collection, and criminal cases. In performing this function, the division's attorneys appear before the Kentucky Board of Tax Appeals (KBTA) and other administrative tribunals of this state and before the state and federal courts. This representation of KRC embraces the handling of all phases and levels of the litigation process, including discovery, trials, motion practice, hearings, and appeals.

The cases handled by the Division of Legal Services address issues, or have resulted in precedents, of great importance and interest to taxpayers and the commonwealth. A number of these cases are discussed below.

### ***Revenue Cabinet v. Lazarus, Inc., Ky., \_\_\_ S.W.3d \_\_\_ (2001)***

In this case, the taxpayer operated retail stores selling general consumer merchandise at various locations in Kentucky. The taxpayer distributed newspaper advertising inserts through several newspapers in Kentucky and distributed catalogs to potential Kentucky customers by mailings directly from out-of-state printers to those customers.

In the case of the inserts, the taxpayer designed the inserts and sent proofs to a printer outside Kentucky for production. The printer shipped the inserts to Kentucky

newspaper publishers in accordance with the taxpayer's instructions. The newspaper publishers then stored the inserts for 10 to 14 days before distributing the inserts with their newspapers.

The catalogs were likewise designed by the taxpayer and were printed outside Kentucky pursuant to the taxpayer's direction. Ultimately, the catalogs were mailed to Kentucky households by the out-of-state printer in accordance with the taxpayer's instructions, using address labels supplied by the taxpayer or including the catalogs as part of a package with other advertising materials as directed by the taxpayer.

In an opinion rendered on May 24, 2001, the Kentucky Supreme Court held that under the plain and unambiguous language of the use tax statutes, use tax was properly assessed in the case of both the catalogs and newspaper advertising inserts. The court stated: "We hold that both the newspaper inserts and the catalogs are subject to the use tax imposed by KRS 139.310, because they are tangible property stored, used, and consumed in Kentucky in the process of advertising goods." The court noted that the General Assembly used broad language so that the use tax would reach all forms of tangible personal property used, stored or otherwise consumed in this state. In this case, while the taxpayer did not have actual possession of the newspaper advertising inserts, it maintained the right of complete control over the handling and distribution of the inserts after their delivery to Kentucky newspapers for distribution. The court further observed that the taxpayer stipulated that it stored the inserts in Kentucky.

The Supreme Court viewed the distribution of the catalogs as being indistinguishable from the inserts for purposes of the application of the use tax. The court found to be persuasive authority the United States Supreme Court's decision in *D.H. Holmes Company, Ltd. v. McNamara*, 486 U.S. 24 (1988).

With respect to the inserts, the Kentucky Supreme Court rejected the taxpayer's argument that KRC's failure to assess use tax in a total of 18 audits involving six retailers over a 30-year period constituted a contemporaneous administrative construction of the statutes on the part of KRC that precluded the use tax assessments at issue in this case. The court held that the application of the doctrine of contemporaneous construction, which is but a judicial tool for statutory construction, could not be founded upon an administrative agency's mere failure to correctly apply the law. Contemporaneous construction could not be based upon an administrative agency's mistakes or mere non-action, the court declared.



# Legal Issues

## ***Camera Center, Inc. v. Revenue Cabinet, Ky., 34 S.W.3d 39 (2000)***

In this case, the taxpayer operated camera stores and photo processing centers in Kentucky. Two of its locations had on-site photo processing laboratories and the other locations sent undeveloped film to those locations for processing.

The taxpayer purchased new equipment for use in its photo processing operations and paid sales tax on these purchases. It later applied to KRC for a refund of the purchase exempt from tax under KRS 139.480(10) and 139.170 as having been purchases of machinery for new and expanded industry.

KRC issued a final ruling denying the taxpayer's refund request. The KBTA affirmed this final ruling. The Jefferson Circuit Court upheld the KBTA's decision and the Kentucky Court of Appeals affirmed the circuit court's action.

The KBTA and these courts agreed with KRC's position that the machinery for new and expanded industry exemption plainly required that the machinery in question be incorporated in a plant facility. In this case, the photo processing equipment was employed at locations that were predominantly retail in character and thus were not plant facilities.

On Sept. 28, 2000, the Kentucky Supreme Court rendered an opinion reversing the decisions of the KBTA, Jefferson Circuit Court and Court of Appeals. The Supreme Court held that as photo processing took place at the locations in question and as photo processing constitutes manufacturing, these locations were plant facilities that would permit application of the exemption. A plant facility, the court ruled, consists of any land, building, or factory at which manufacturing operations take place.

Three of the seven justices of the Supreme Court dissented from the Supreme Court's decision. The dissenters agreed with KRC that the plant facility language created a definite requirement in order for the exemption to apply and that "plant facility" under this requirement meant a single permanent location used almost exclusively for industrial manufacturing or industrial processing activities and not a location primarily retail in character. The majority's decision, the dissenting opinion contended, rendered the plant facility requirement superfluous.

Finally, the dissent noted that KRC's position in this case reflected a longstanding administrative construction of the exemption. This construction was in accord with the legislative intent at the time of the exemption's enactment and "[i]t is the function of the legislature, not this court or [Camera Center], to change the statute's intent."

KRC's petition for rehearing seeking reconsideration by the Supreme Court of its opinion in this case was denied Jan. 25, 2001.

The 2001 General Assembly subsequently amended KRS 139.170 to provide a definition of "plant facility" to govern the machinery for new and expanded industry exemption. This effect of this legislation (House Bill 201) was to restore the exemption to the meaning given it by KRC prior to the Supreme Court's ***Camera Center*** decision. To meet the definition of "plant facility," a location must be exclusively dedicated to manufacturing or processing production activities. Under this legislation, restaurants, grocery stores, shopping centers, and other retail establishments are specifically excluded from the definition of a "plant facility." Incidental retail activity at the plant site will not disqualify the facility from the exemption, however.

This bill also incorporates into statutory language the meanings of the terms "manufacturing" and "manufacturing process" that have been shaped by Kentucky courts and historically used by KRC to administer this exemption.

This legislation became effective Mar. 15, 2001, with provisions applying retroactively to Sept. 28, 2000.

## ***Revenue Cabinet v. Hubbard d/b/a Stone Age Dental Laboratory, Ky., 37 S.W.3d 717 (2000)***

This case concerned the application of the exemption contained in KRS 139.472 for prosthetic devices to a dentist's purchases of dentures, crowns, bridges, etc. Specifically, the issue before the Kentucky Supreme Court was whether the dental items were "prosthetic devices...individually designed, constructed or altered solely for the use of a particular crippled person so as to become a brace, support, supplement, correction or substitute for the bodily structure..." The Harlan Circuit Court and Kentucky Court of Appeals had held that the prosthetic device exemption did indeed embrace the dentist's purchases of these items. These decisions overturned a KBTA decision in KRC's favor.

On Dec. 21, 2000, the Supreme Court rendered an opinion reversing the Court of Appeals and circuit court decisions and reinstating the ruling of the KBTA.

In this opinion, the court began its analysis with the principle that tax exemption statutes such as KRS 139.472 are narrowly construed. The Supreme Court stated that it viewed the resolution of the issue before it as turning on the meaning of the word "crippled." The meaning of "crippled" in KRS 139.472, the court held, embraced the definition that someone is considered "crippled" when he or she is deprived of the use of a limb. "Clearly, this





exemption is limited to persons who have difficulty walking or are unable to walk,” the court declared.

The court further reasoned that “[w]hile we are unable to find a definition for the term ‘bodily structure,’ the use of the definite article ‘the’ indicates that the statute refers to the entire body and not to discrete parts of components that could be considered a ‘bodily structure,’ e.g., the mouth.” The Supreme Court concluded that “[i]n other words, a person who needs dentures, crowns, bridges or braces *for his or her teeth* is not ‘crippled’ within the meaning of the statute.”

The Supreme Court denied the taxpayer’s petition for rehearing on Mar. 22, 2001.

***Owens-Illinois Labels, Inc. v. Revenue Cabinet, Ky. App., 27 S.W.3d 798 (2000)***

The issue in this case was whether a privately owned leasehold interest in industrial buildings owned by qualifying tax-exempt local governmental entities and financed with industrial revenue bonds pursuant to KRS Chapter 103.200 et seq. became subject to taxation at full state and local tax rates after the industrial revenue bonds had been fully redeemed and retired. Reasoning that tax exemptions such as those involved in this case (KRS 132.020(1) and 132.200(8)) are disfavored and strictly construed, the Kentucky Court of Appeals held that the privately owned leasehold interests in the industrial buildings in question were taxable at full state and local tax rates due to the industrial revenue bonds having been redeemed and retired.

The taxpayers filed motions for discretionary review of the Court of Appeals’ opinion with the Kentucky Supreme Court. These motions were denied on Oct. 18, 2000.

***Jim Beam Brands Co. v. Revenue Cabinet, 2000-SC-00044-D, Kentucky Supreme Court***

The question in this corporation income and license tax case was whether the taxpayer’s sales to overseas military clubs were sales to the United States government and thus includible in the numerator of the sales factor for purposes of the corporation income and license tax apportionment computations pursuant to KRS 141.120(8)(c) and 136.070(3)(d)2. Affirming a decision of the Franklin Circuit Court, which had reversed a KBTA decision adverse to KRC, the Kentucky Court of Appeals held that military officers’ clubs were indeed instrumentalities of the United States government and that the taxpayer’s sales to those clubs were sales to the United States government within the meaning of KRS 141.120(8)(c) and 136.070(3)(d)2.

The taxpayer filed a motion for discretionary review of the Court of Appeals’ opinion with the Kentucky Supreme Court. The Supreme Court denied that motion by an order entered on Sept. 20, 2000.

***Smithkline Beecham Corporation v. Revenue Cabinet, Ky. App., 40 S.W.3d 883 (2001)***

At issue in this case was the application of the use tax to a pharmaceutical company’s storage in this state of free drug samples and its distribution of those samples to physicians who in turn were to provide the samples without charge to their patients. Both the KBTA and Franklin Circuit Court upheld KRC’s assessment of use tax for the company’s storage and distribution of these free drug samples. In an opinion rendered on Jan. 19, 2001, the Kentucky Court of Appeals reversed the KBTA and circuit court. The Court of Appeals agreed with KRC that the pharmaceutical company’s storage and distribution of the samples were properly subject to use tax pursuant to KRS 139.310, the distribution of the samples clearly being embraced by the statutory definition of taxable “use” and the company’s storage of the samples considered by the court with “little difficulty” to be within the legislative definition of taxable “storage” in KRS 139.150(1).

The Court of Appeals nevertheless ruled that the assessment must be set aside because the exemption provided for in KRS 139.472 for prescription drugs applied. The court rejected KRC’s argument that the drugs must be actually dispensed by a pharmacist in order for this exemption to apply. Instead, the court reasoned the “[t]he medication is exempt if it is a medicine that is commonly recognized as one which is prescribed for the treatment of a human being and commonly recognized as one that would be dispensed by a registered pharmacist in accordance with law. It is the nature of the medicine, not the manner in which it is actually dispensed, that qualifies it as a prescription medicine.”

KRC’s petition for hearing was denied on Mar. 16, 2001. No further review was sought in this case.

The 2001 General Assembly amended KRS 139.472 to allow an exemption from sales and use tax for free drug samples distributed to or from a physician’s office, which was essentially the same result obtained by the taxpayer in this case. This legislation (House Bill 370) became effective on July 1, 2001.





# KRC Administration

## KRC Administrative Expenditures

KRC administrative expenditures for Fiscal Year 2000-2001 totaled \$68,365,173. The types of appropriated funds that support ongoing operations include General, Road, Restricted, and Federal funds.

Personnel costs represented 67 percent, or \$45,387,808, of the total administrative expenditures for Fiscal Year 2000-2001.

### ADMINISTRATIVE COSTS, FISCAL YEAR 2001 (Excluding PVA, EMPOWER Kentucky and Capital Construction Costs)

	General Fund	Agency Fund	Federal Fund	Road Fund	Total
Salaries full-time	\$32,734,285	\$1,473,544	\$0	\$ 829,038	\$35,036,867
Fringe benefits	7,580,513	0	0	918	7,581,431
Seasonal employees	748,647	0	0	0	748,647
Overtime/block 50s	486,048	0	0	0	486,048
Training and tuition assistance	61,342	0	0	0	61,342
Worker compensation insurance	137,442	0	0	0	137,442
Unemployment insurance	43,192	0	0	0	43,192
Legal/audit services/consultants	814,800	0	0	0	814,800
Janitorial services	265,859	0	0	0	265,859
Data entry/temporary services	49,940	0	0	0	49,940
Security	162,240	0	0	0	162,240
<b>Total Personnel</b>	<b>\$43,084,308</b>	<b>\$1,473,544</b>	<b>\$0</b>	<b>\$ 829,956</b>	<b>\$45,387,808</b>
Carpool (state motor pool)	\$ 35,782	\$ 0	\$0	\$ 0	\$ 35,782
Utilities	334,007	17,500	0	6,000	357,507
Rent/rentals	3,087,862	35,000	0	55,000	3,177,862
Maintenance and repairs	1,689,715	0	0	0	1,689,715
Postage	3,055,964	54,500	0	306,000	3,416,464
Printing/other services	1,154,620	404,275	0	20,000	1,578,895
Information technology (includes GOT costs)	8,390,032	1,029,995	0	159,077	9,579,103
Computer equipment	476,212	0	0	0	476,212
Supplies	514,643	0	0	0	514,643
Commodities/furniture	241,873	2,800	0	0	244,673
Software/telephone equipment	30,641	0	0	0	30,641
Travel	1,101,768	52,096	0	30	1,153,894
Filing/lien/collection fees	8,299	95,946	0	0	104,245
Dues/subscriptions services	440,941	151,672	0	8,937	601,550
<b>Total Operating</b>	<b>\$20,562,359</b>	<b>\$1,843,785</b>	<b>\$0</b>	<b>\$ 555,044</b>	<b>\$22,961,188</b>
Computer equipment over \$5,000	\$ 16,177	\$ 0	\$0	\$ 0	\$ 16,177
<b>Total Capital Outlay</b>	<b>\$ 16,177</b>	<b>\$ 0</b>	<b>\$0</b>	<b>\$ 0</b>	<b>\$ 16,177</b>
<b>Total Administrative Costs</b>	<b>\$63,662,844</b>	<b>\$3,317,329</b>	<b>\$0</b>	<b>\$1,385,000</b>	<b>\$68,365,173</b>



## KRC Departments, Divisions, and Their Duties

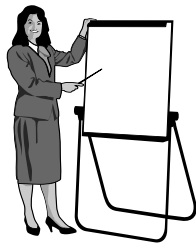
KRC consists of 13 divisions, headed by the Office of the Secretary. The divisions are organized into four departments—Information Technology, Law, Property Valuation, and Tax Administration.

### Office of the Secretary

The Secretary of the Revenue Cabinet is the agency's top administrative official. The Office of the Secretary is established under Chapter 131 of the Kentucky Revised Statutes. The Secretary of the Revenue Cabinet is authorized under the statute to appoint assistants and personnel as necessary to perform functions of the office.

The Office of the Secretary includes the offices of Financial and Administrative Services, General Counsel, Internal Audit, PVA Administrative Support Branch, Strategic Planning/Program Review, and Taxpayer Ombudsman.

The **Financial and Administrative Services** office assists KRC in personnel and fiscal services and training and development. It provides office supplies and equipment, educational, budget and fiscal, and personnel services for KRC.



The **Internal Audit** office is responsible for auditing the accounting, control, and custodial activities of KRC to ensure compliance with applicable federal and state laws, administrative regulations, policies, and procedures. In addition, the Disclosure Branch, responsible for approving and regulating the disclosure of confidential state and federal information, reports to the Internal Audit office.

The **Strategic Planning/Program Review** office directs and coordinates the long-term planning of KRC and recommends strategies to achieve goals and objectives. The planner also coordinates work of the commissioners with respect to long-term planning and is responsible for guiding plan implementation throughout KRC.

The **Taxpayer Ombudsman** office is responsible for coordinating the resolution of taxpayer complaints and problems if requested by taxpayers or their representatives; recommending publications and education programs to improve voluntary compliance with Kentucky's tax laws; and otherwise ensuring the rights of taxpayers under KRS 131.041-131.081, the Kentucky Taxpayers' Bill of Rights.



The **PVA Administrative Support Branch** provides budget, fiscal, personnel, and payroll administration for all 120 PVAs and more than 680 deputies throughout the commonwealth. This branch also coordinates open enrollment for health and life insurance, directs property tax educational KY-Courses, and budgets data to the Governor's Office for Policy and Management and the Auditor of Public Accounts. It conducts workshops at summer and fall PVA conferences and area meetings. It also works with other state agencies, elected officials, and the general public.

### Department of Information Technology

The Department of Information Technology consists of two divisions, the Division of Technology Infrastructure Support and the Division of Systems Planning and Development. It provides strategic planning for the development of information resource policies and offers overall support for information technologies available within KRC. The focus is on efficient delivery of information services in support of KRC's mission and objectives.



The **Division of Systems Planning and Development** is responsible for application development support services, including electronic commerce, Web development, and end-user support and production control.

The **Division of Technology Infrastructure Support** provides network support service, KRC technology procurement support, and computer operations support.

### Department of Law

The Department of Law administers KRC's collection efforts, communication efforts, tax policy, and legal services; resolves protested issues; and performs tax research studies. It consists of the Division of Collections, the Division of Legal Services, the Division of Protest Resolution, the Division of Research, and the Division of Tax Policy, as well as the Public Information and Communication Services Branch, which is attached to the commissioner's office.

The **Division of Collections** is responsible for the collection of delinquent taxes and the administration of collection-related compliance programs including Voluntary Disclosure and Offers in Settlement. The division is also responsible for administering the Criminal Referral program.





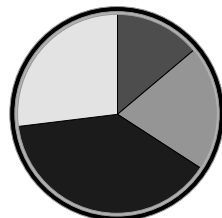
# KRC Administration

The **Division of Legal Services** represents KRC in administrative proceedings before the Kentucky Board of Tax Appeals (KBTA) and Board of Claims and in legal actions involving tax and a variety of other issues at every level of the state and federal court system. The division also performs a wide range of other services and functions which include rendering advice and written legal opinions concerning the state's tax laws to KRC personnel, other state government personnel, and taxpayers; reviewing and drafting proposed statutes and regulations; analyzing tax laws and assisting with their implementation and administration; assisting with the preparation of KRC informational publications; and providing assistance and advice in connection with audits, protest conferences, and other stages of the enforcement and administration of the tax laws.



The **Division of Protest Resolution** reviews and bills tax audits completed by field auditors in KRC's 11 taxpayer service centers. The division is also responsible for responding to and resolving taxpayers' protests of the assessments which may result from both field audits and office audits. In addressing protests, the division reviews the information submitted by the taxpayer in support of a protest and conducts taxpayer conferences. When a protest cannot be resolved, the division issues final rulings which may be appealed by the taxpayer to the KBTA.

The **Division of Research** is responsible for providing analyses of tax-related issues and fiscal impact studies of legislative proposals, administrative changes, and court decisions; gathering and maintaining data to assist the Office of Financial Management and Economic Analysis in revenue forecasting; performing internal studies of administrative practices and procedures to improve efficiency of tax administration; responding to external requests for tax-related information or analysis; and assisting in the design of tax forms, returns, and related instructions.



The **Division of Tax Policy** is responsible for providing oral and written technical advice on Kentucky tax law; drafting proposed tax legislation and regulations; testifying before legislative committees on tax matters; analyzing tax legislation; reviewing and revising tax returns and forms; drafting and reviewing articles and publications; reviewing and approving final ruling letters; providing expert witnesses in tax litigation; providing consultation and assistance in protested tax cases; and conducting training and education programs.

The **Public Information and Communication Services Branch** is responsible for KRC publications, forms, and printing.

## Department of Tax Administration

The Department of Tax Administration administers KRC's taxpayer assistance, general tax administration, field operations, and tax processing efforts. It consists of the Division of Compliance and Taxpayer Assistance, the Division of Field Operations, and the Division of Revenue Operations.

The **Division of Compliance and Taxpayer Assistance** is responsible for providing taxpayer assistance, administering taxes levied under the Kentucky Revised Statutes, managing compliance programs, and conducting office audits.

The **Division of Field Operations** is responsible for providing quality taxpayer service from the 11 taxpayer service centers. The centers provide taxpayer assistance and education, prepare returns, distribute forms, collect delinquent taxes, and perform field audits. The division also provides instructors, develops training materials, and coordinates training for most in-house tax schools.



The **Division of Revenue Operations** is responsible for receiving and processing revenues for deposit into the state treasury, registering firms for business taxes, processing tax returns, and making additional assessments or refunds. This division also has responsibility for records management.

## Department of Property Valuation

The Department of Property Valuation administers all property taxation matters. It is composed of the Division of Local Valuation, the Division of State Valuation, and the Division of Technical Support.

The **Division of Local Valuation** is responsible for certifying property valuations submitted by PVAs, coordinating property tax collection, and providing technical and administrative support to PVAs, county clerks, sheriffs, county attorneys, and local taxing districts.

The **Division of State Valuation** is responsible for overseeing the assessment of intangible and tangible personal property, motor vehicles, apportioned vehicles, public service company property, omitted personal property, and other taxes on property.

The **Division of Technical Support** is responsible for providing assistance to the 120 PVAs in the areas of mapping projects, mineral valuation and compliance, and computer technology.



## Dana Mayton Named KRC Secretary

Effective Monday, June 18, 2001, Dana Bynum Mayton was named KRC Secretary. Mayton, formerly Commissioner of KRC's Department of Law, replaces Mike Haydon, who was named Deputy Secretary to Crit Luallen, the Secretary of the Governor's Executive Cabinet. "The commonwealth is facing some real challenges in the months and years ahead and I appreciate this opportunity to work closely with Secretary Luallen and with Governor Patton to continue to move Kentucky forward," Haydon said. Haydon had been KRC Secretary since December 1999.



Mayton had served as commissioner since February 1999. Prior to that she served as a legislative committee analyst/staff attorney with the Appropriations and Revenue Committee of the Kentucky General Assembly. Mayton began her career in Kentucky with KRC's Division of Legal Services where she served three years. In 1996, she was appointed director of KRC's Division of Compliance and Taxpayer Assistance.

She is a native of Arkansas and graduated from Arkansas State University and the University of Arkansas at Little Rock School of Law. Mayton resides in Shelbyville.

"I'm honored to be asked by Governor Patton to take another step in my career of service to the commonwealth," Mayton said. "Although we will greatly miss Secretary Haydon, I look forward to a seamless transition for our employees and the taxpayers of the commonwealth."



## KRC Management Appointments

On Aug. 1, 2000, Joe Lancaster was appointed deputy executive director of the Budget Branch. Previously, he was a fiscal director, revenue auditor, tax examiner, and Revenue field representative. Lancaster is a graduate of Western Kentucky University with a bachelor's degree in economics and is currently attending the University of Louisville working on his master's degree.

On Dec. 1, 2000, Dwight Howard was appointed commissioner of the Department of Tax Administration. He was previously director of the Division of Revenue Operations.

Howard is a 32-year veteran of KRC. He began his career as a field representative in the Owensboro Taxpayer Service Center, then became district manager, director of the Division of Collections, director of Field Operations, and director of Revenue Operations. He attended Murray State University and Kentucky Wesleyan College.

On Dec. 1, 2000, Agnes Roberts was appointed director of the Division of Revenue Operations. She was previously manager of the Western Kentucky Field Branch in the Department of Property Valuation.

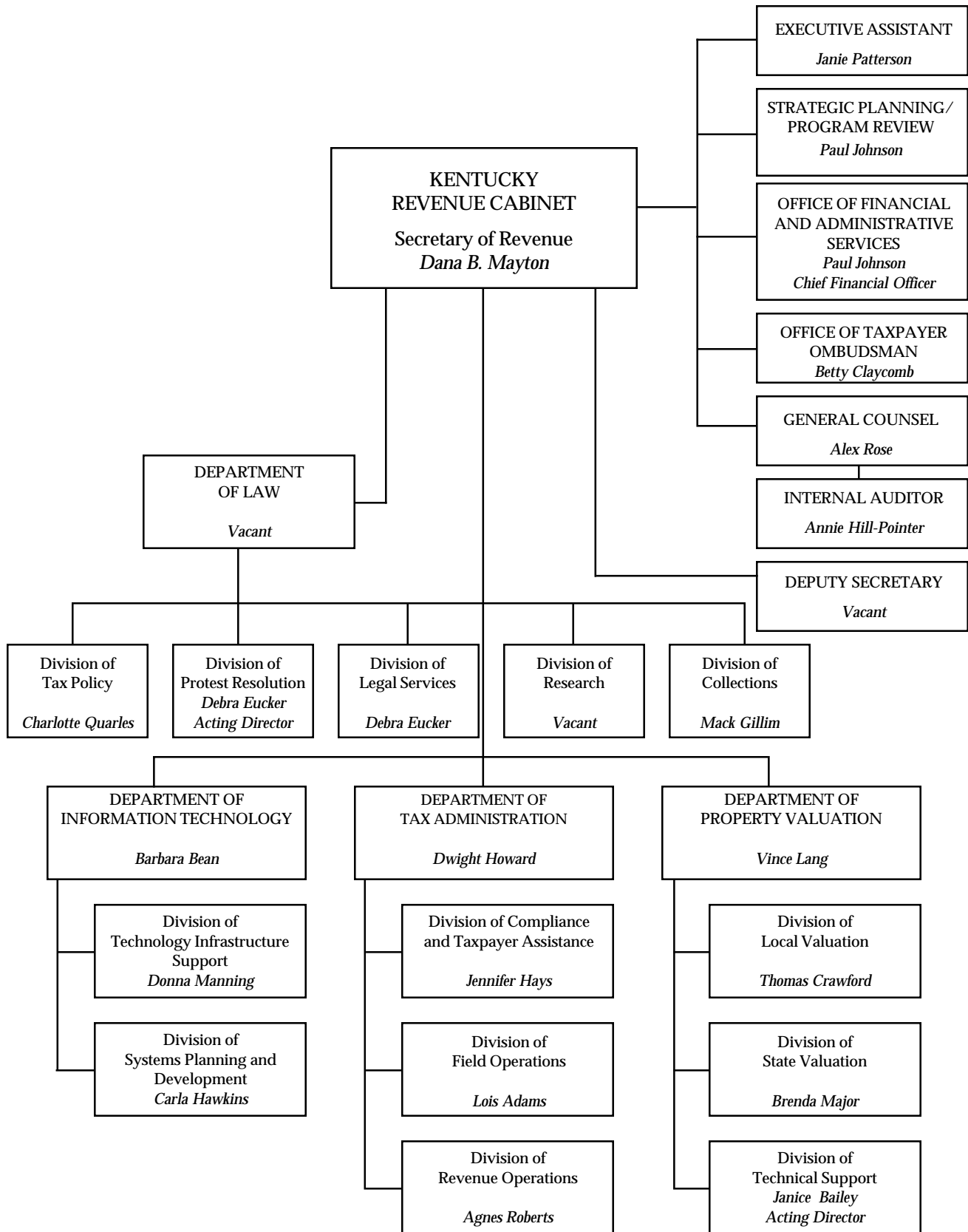
Roberts is a 14-year KRC veteran who has served as director of Receipts and Data Services, manager of Accounts Receivable Branch, and manager of the Western Field Branch of Local Valuation. She attended Georgetown College and Western Kentucky University.

On Feb. 1, 2001, Mike Russell was appointed assistant director of the Division of Revenue Operations. He is a 22-year veteran of KRC who previously was the branch manager of the Document Preparation and Processing Branch. He has also served as a tax examiner, collections officer, Revenue unit supervisor, and administrative section supervisor. Russell attended Eastern Kentucky and Kentucky State universities.

On Mar. 16, 2001, James Greenwell was appointed assistant director of the Division of Compliance and Taxpayer Assistance. He was previously a regional manager in the Division of Field Operations. He is a 25-year veteran of KRC who began his career as a field auditor. He has also served as a section supervisor and a director. Greenwell is a graduate of the University of Kentucky with a bachelor of science degree in accounting.



MANAGEMENT—KENTUCKY REVENUE CABINET  
 JUNE 30, 2001





Secretary D. Mayton



L. Adams



J. Bailey



B. Bean



B. Claycomb



T. Crawford



D. Eucker



M. Gillim



J. Hays



A. Hill-Pointer



D. Howard



P. Johnson



V. Lang



B. Major



A. Roberts



C. Quarles



A. Rose

**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Alcoholic Beverage Wholesale Sales Tax</b>	KRS 243.884	9 percent of wholesale sales of distilled spirits, wine and malt beverages.	A wholesale sales tax on alcoholic beverage wholesalers/distributors to be reported monthly. There are statutory exemptions.
<b>Bank Franchise Tax</b>	KRS 136.500 et seq.	1.1 percent of net capital. Minimum tax is \$300 per year.	Tax is imposed on every financial institution regularly engaged in business in Kentucky at any time during the calendar year. A financial institution is presumed to be regularly engaged in business in Kentucky if during any taxable year it obtains or solicits business with 20 or more persons within Kentucky, or if receipts attributable to sources in Kentucky equal or exceed \$100,000. Tax is in lieu of all city, county and local taxes except for the real estate transfer taxes, real property and tangible personal property taxes upon user of utility services and the local deposit franchise tax.
<b>Beer Consumer Tax</b>	KRS 243.720 et seq.	\$2.50 per barrel of 31 gallons.	An excise tax imposed on distributors or retailers of malt beverages who purchase malt beverages directly from a brewer. There are statutory exemptions and credits. There is a 50 percent discount for domestic brewers.
<b>Cigarette Enforcement and Administration Fee</b>	KRS 365.390	.001 cent per pack (rate subject to change annually).	Fee paid by cigarette wholesalers and unclassified acquirers to provide for the expenses of the Revenue Cabinet in administering the Cigarette Tax Law.
<b>Cigarette Licenses</b>	KRS 138.195	Resident wholesaler ..... \$500 Nonresident wholesaler ..... \$500 Subjobber ..... \$500 Vending machine operator ..... \$ 25 Transporter ..... \$ 50 Unclassified acquirer ..... \$ 50	Annual license fee imposed upon various dealers and handlers of cigarettes. More than one license may be required by the Revenue Cabinet for any dealer or handler depending upon the diversity of his business and the number of established places of business.
<b>Cigarette Tax</b>	KRS 138.130 et seq.	3 cents per 20 cigarettes, proportioned for other quantities.	An excise tax on cigarettes paid by resident and nonresident wholesalers and unclassified acquirers. The tax is paid by purchasing stamps within 48 hours after cigarettes are received by a resident wholesaler and within 24 hours after cigarettes are received by an unclassified acquirer. A nonresident wholesaler must affix the tax stamps prior to importing them into Kentucky.
<b>Coal Tax</b>	KRS 143.010, 143.020 et seq.	50 cents per ton minimum or 4.5 percent of gross value. (The minimum tax shall not apply to a taxpayer who only processes coal.)	Tax is based on the gross value of coal severed and/or processed in Kentucky. Partial or whole exemptions from the tax may apply to newly permitted production from "thin seams."
<b>Corporation Income Tax</b>	KRS 141.010 et seq., 155.170	First \$25,000 ..... 4 percent Next \$25,000 ..... 5 percent Next \$50,000 ..... 6 percent Next \$150,000 ..... 7 percent All Over \$250,000 ..... 8.25 percent Business Development Corporations ..... 4.5 percent	Annual tax on the entire net income of the corporation apportioned and allocated to Kentucky. Corporations whose estimated tax liability will exceed \$5,000 must file a declaration of estimated tax due and pay the estimated tax in three installments. Financial institutions as defined in KRS 136.500, except bankers banks organized under KRS 287.135, insurance companies; savings and loan associations; corporations exempted by Internal Revenue Code (IRC) Section 501; and religious, educational, charitable and like corporations not conducted for profit are exempt from corporate income tax.  An "electing small business corporation," (S corporation) as defined in Section 1371(b) of the IRC, is recognized as being exempt from Kentucky corporation income tax except for tax on net capital gain of such corporation as provided in KRS 141.040(5). "A filing requirement will apply to a corporation that only has a partnership interest in Kentucky, under KRS 141.206."  A limited liability company (LLC) is treated for Kentucky income tax purposes in the same manner as its tax treatment for federal income purposes under KRS 141.208.  For taxable years ending on or after December 31, 1995, KRS 141.200 allows an affiliated group to elect to file a consolidated Kentucky income tax return with the election binding for 96 consecutive calendar months. KRS 141.120 prohibits affiliated groups from filing a combined Kentucky corporation income tax return using the unitary business concept.



**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Corporation License Tax	KRS 136.070 et seq.	\$2.10 per each \$1,000 of capital employed in the business. Kentucky tax is based on the amount of such capital apportioned to Kentucky. Minimum tax is \$30.	Annual license tax levied against any corporation owning or leasing property or having an employee in Kentucky. Public service companies, certified alcohol production facilities, certified fluidized bed energy production facilities, and LLCs are also exempt from license tax.  A corporation with gross income of \$500,000 or less is allowed a credit against the license tax of \$1.40 on each \$1,000 of the first \$350,000 of capital employed.
Distilled Spirits Case Sales Tax	KRS 243.710	5 cents per case.	Excise tax on distilled spirits sold by wholesalers to retailers in Kentucky.
Distilled Spirits and Wine Consumer Taxes	KRS 243.720 et seq.	Distilled spirits containing over 6 percent alcohol by volume per gallon ..... \$ 1.92 per liter ..... 0.5073 Distilled spirits containing 6 percent or less alcohol by volume per gallon ..... \$ 0.25 per liter ..... 0.0661 Wine per gallon ..... \$ 0.50 per liter ..... 0.1321  (Proportionate amount charged on smaller quantities, but not less than 4 cents on any retail container of wine.)	Excise tax imposed upon the use, sale or distribution by sale or gift of distilled spirits and wine. There are statutory exemptions.
Health Care Provider Tax	KRS 142.301 to 142.359	2.5 percent of gross receipts for hospital services. 2.0 percent of gross receipts for nursing facility services, licensed home health agency services, HMO services (excluding premium receipts) and ICF/MR services.	Effective July 1, 1993, a provider tax is imposed on providers of taxable medical services. Registration is required prior to the beginning of operations.
Individual Income Tax	KRS 141.010 et seq.	First \$3,000 ..... 2 percent Next \$1,000 ..... 3 percent Next \$1,000 ..... 4 percent Next \$3,000 ..... 5 percent In excess of \$8,000 ..... 6 percent	Graduated tax upon an individual's taxable income. Residents must pay on their entire taxable income. Nonresidents must pay on that portion of their income attributable to Kentucky sources. Fiduciaries must pay on that portion of income of an estate or trust not distributed or distributable to beneficiaries.  Tax base is the federal adjusted gross income adjusted for differences in Kentucky and federal laws, including US government bond interest, limited pension/retirement income exclusion, Social Security benefits and Railroad Retirement Board benefits and deductions for long-term care and health insurance premiums. Taxable income is computed by using the standard deduction of \$1,700 or Kentucky itemized deductions. Tax credits include personal credits of \$20, child and dependent care, low income, and various business credits.

**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Inheritance and Estate Taxes</b>	KRS 140.010 et seq.	Inheritance tax ..... 4–16 percent Estate tax ..... an amount by which the state death tax credit allowable under the federal tax law exceeds the inheritance tax.	The Kentucky inheritance tax is a tax on the right to receive property upon the death of another person. The rate of tax and the exemptions allowed depend on the legal relationship of the beneficiary to the decedent. If the date of death is after June 30, 1998, the following list of beneficiaries are exempt from paying inheritance tax: (1) Surviving spouse, parent; (2) Child (adult or infant)—child by blood, stepchild, child adopted during infancy, or a child adopted during adulthood who was reared by the decedent during infancy; (3) Grandchild—issue of child by blood, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy; (4) Brother, sister (whole or half).  The Kentucky estate tax is the amount which the allowable federal estate death tax credit exceeds the Kentucky inheritance tax.
<b>Insurance Premium Surcharge</b>	KRS 136.392	1.5 percent of premiums.	An insurance premium surcharge on insured Kentucky risks. There are statutory exemptions.
<b>Insurance Premium Taxes</b>	KRS 136.330 to 136.390, 299.530, 304.3-270, 304.4-030	All insurance 1.9 percent for calendar year 2000, this tax is now being levied on domestic insurance companies and alien insurance companies as well as foreign insurance companies, the tax is being lowered by 0.1 percent per year until the rate reaches 1.5 percent and annuities are not excluded from the tax. Fire insurance* ..... 0.75 percent *Represents additional tax on applicable premiums.	Annual tax imposed on insurance companies and risk retention groups based upon premium receipts on business done. There are statutory exemptions.
<b>Legal Process Taxes</b>	KRS 142.010 et seq.	Conveyances of real property (deeds) ..... \$3.00 Mortgages, financial statements and security agreements ..... \$3.00 Marriage licenses* ..... \$3.50 Powers of attorney to convey real or personal property ..... \$3.00 Lien or conveyance of coal, oil, gas or other mineral right or privilege ..... \$3.00	Taxes imposed on the filing of an instrument subject to tax or the issuance of a marriage license. Collected by county clerk.  *A \$10 Spouse Abuse Shelter Fund fee levied on marriage licenses by KRS 209.160 is, by agreement between the Revenue Cabinet and the Cabinet for Families and Children, also reported and paid to the Revenue Cabinet by county clerks as part of the monthly report of legal process taxes due.
<b>Marijuana and Controlled Substance Tax</b>	KRS 138.870 et seq.	\$3.50 per gram on marijuana, loose. \$1,000 per marijuana plant. \$200 per gram controlled substance by weight. \$2,000 per 50 dosage units of controlled substance.	Growers, sellers, dealers, buyers and manufacturers must obtain a tax stamp to affix to the product.  Commonwealth's or county attorneys who obtain a conviction of, or guilty or Alford plea from an offender must notify the Revenue Cabinet if the product which was the subject of the conviction or plea does not bear the tax stamp.

**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Motor Fuels Tax—Gasoline</b>	KRS 138.210 et seq.	9 percent of average wholesale price of gasoline, but not less than 10 cents per gallon. Rate determined quarterly.  A 5 cent per gallon "Supplemental Highway User Motor Fuel Tax" also applies.	An excise tax paid by licensed dealers on all gasoline received in this state. There are statutory provisions for partial or full tax refunds for designated users.
<b>Motor Fuels Tax—Liquefied Petroleum Gas</b>	KRS 234.310 to 234.440	Variable rate same as gasoline.  The 5 cent per gallon supplemental tax also applies to liquefied petroleum gas.	An excise tax paid by licensed dealers on all liquefied petroleum motor fuel withdrawn to propel motor vehicles on the public highways, unless the carburetion system has been approved by the Natural Resources and Environmental Protection Cabinet.
<b>Motor Fuels Tax—Petroleum Storage Tank Environmental Assurance Fee</b>	KRS 224.60-145	1.4 cents per gallon.	A petroleum storage tank environmental assurance fee is levied on all taxable gasoline and special fuel reported in this state by licensed dealers. There are provisions for exemptions or refunds for qualifying gasoline or special fuels not to be used on the public highways.
<b>Motor Fuels Tax—Special Fuels</b>	KRS 138.210 et seq.	Variable rate same as gasoline.  A 2 cent per gallon "Supplemental Highway User Motor Fuel Tax" also applies.	An excise tax is levied on all special fuels received in this state by licensed dealers. There are statutory provisions for tax credits and partial or full tax refunds for designated users.
<b>Motor Vehicle Usage Tax</b>	KRS 138.450 et seq.	6 percent of the consideration given or retail value as defined in KRS 138.450. Value is dependent on the type of transaction. Optional tax payment method available for U-Drive-It operators based on 6 percent of the gross rental or lease charges.	Tax imposed on new and used motor vehicles when registered for the first time in this state and when ownership is transferred. There are statutory exemptions and credits. Regular usage tax payments are made to the county clerk and forwarded to the Revenue Cabinet. U-Drive-It usage tax payments are made directly to the Transportation Cabinet on a monthly basis.
<b>Natural Resources Severance and Processing Taxes</b> (Minerals, Natural Gas and Natural Gas Liquids)	KRS 143A.010, 143A.020 et seq.	4.5 percent of gross value. 12 cents per ton (clay production).	<p>Tax of 4.5 percent of the gross value is imposed on every taxpayer engaged in the business of severing and/or processing minerals (including natural gas and natural gas liquids) in Kentucky with the exception of clay. Clay production is taxed at 12 cents per ton. A credit equal to the tax of 12 cents per ton is granted to those taxpayers who sever or process clay sold to and used as a component of landfill construction by an approved waste disposal facility within this state. Also, no tax is imposed on the processing of ball clay.</p> <p>This tax does not apply to fluorspar, lead, zinc, tar sands and barite severed for any purposes; or to rock, limestone, or gravel used for privately maintained but publicly dedicated roads; or limestone when sold or used by the taxpayer for agricultural purposes so as to qualify for exemption from sales and use tax.</p> <p>A credit equal to the tax is allowed on the gross value of limestone which is severed or processed within this state and sold to a purchaser outside this state. This credit is extended only to taxpayers who sever or process limestone through the rip-rap construction aggregate of agricultural limestone stages, and who sell in interstate commerce not less than 60 percent of such stone. The credit shall not be allowed to a taxpayer who processes the limestone beyond the agricultural limestone stages.</p> <p>A gas well, which has been plugged and abandoned for a consecutive two-year period that resumes producing, qualifies for the Recovered Inactive Well Tax Credit equal to 4.5 percent of the gross value.</p>

**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Oil Production Tax</b>	KRS 137.120 et seq.	4.5 percent of market value of crude petroleum produced in Kentucky.	Tax on the production of crude petroleum is attached when the crude petroleum is first transported from the tanks or other receptacle located at the place of production. Transporter of crude petroleum, as agent, pays tax for all persons owning any interest in such oil.  An oil well, which has been plugged and abandoned for a consecutive two-year period that resumes producing, qualifies for the Recovered Inactive Well Tax Credit equal to 4.5 percent of the gross value.
<b>Property Taxes:</b>  <b>Agricultural Products</b> In hands of producer or agent  Tobacco not at manufacturer's plant (Storage)  Other agricultural products not at manufacturer's plant (Storage)	KRS 132.020(1), 132.200(6)  KRS 132.020(1), 132.200(6)  KRS 132.020(1), 132.200(6)	1.5 cents (per \$100 of assessment).  1.5 cents (per \$100 of assessment).  1.5 cents (per \$100 of assessment).	State rate only.  Also subject to county and city rates.  Also subject to county and city rates.
<b>Aircraft</b>	KRS 132.020(12), KRS 132.200(19)	1.5 cents (per \$100 of assessment).	Local option.
<b>Annuities or Rights to Receive Income</b>	KRS 132.215(2)	0.1 cent (per \$100 of assessment).	State rate only.
<b>Bank Deposits</b>  Domestic and Out-of-State	KRS 132.030(1)	0.1 cent (per \$100 of assessment).	Tax is based on deposits as of January 1 and is paid by the institution on behalf of the depositors. State rate only.
<b>Brokers' Accounts Receivable</b>  (Also see <b>Margin Accounts</b> )	KRS 132.050	10 cents (per \$100 of assessment).	State rate only.
<b>Car Lines</b> (Private)	KRS 136.120(4), 136.180(3)	Subject to annual adjustment.	Subject to annual adjustment. Local tax collected and distributed by the Revenue Cabinet effective January 1, 1994.
<b>Distilled Spirits</b>	KRS 132.020(10)	5 cents (per \$100 of assessment).	Subject to full local rates.
<b>Farm Machinery Used in Farming</b>	KRS 132.020(1), 132.200(1)	0.1 cent (per \$100 of assessment).	State rate only.

**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Goods Held for Sale in the Regular Course of Business</b>	KRS 132.020(10)	5 cents (per \$100 of assessment).	Subject to local rates.
<b>Intangibles</b>  Money in hand, notes, bonds, accounts and other credits, except those arising from out-of-state business, or intercompany accounts between parent and subsidiary, and other not specified elsewhere.  Accounts receivable, notes, bonds, credits, nondomestic bank deposits and other intangibles arising from out-of-state business, and intercompany accounts between parent and subsidiary, patents and copyrights, and tobacco base allotments.	KRS 132.020(1), 136.120(1)  KRS 132.020(2), 132.120(2)	25 cents (per \$100 of assessment).  1.5 cents (per \$100 of assessment).	State rate only.  State rate only.
<b>Leasehold Interest</b>  (Owned by tax-exempt governmental unit)	KRS 132.020(1)	1.5 cents (per \$100 of assessment).	State rate only.
<b>Life Insurance Companies</b>  (Domestic) Capital Reserves Policy Proceeds on Deposit (Individual)	KRS 136.320  KRS 132.216	42 cents (per \$100 of assessment). 0.1 cent (per \$100 of assessment).  25 cents (per \$100 of assessment).	Also subject to county and city rates. State rate only.  State rate only.
<b>Livestock and Poultry</b>	KRS 132.020(1)	0.1 cent (per \$100 of assessment).	State rate only.
<b>Local Government Franchise Taxes on Bank Deposits</b>	KRS 136.575	No state rate. Tax due the following January 31. Based on June 30 deposits.	Tax is imposed on financial institutions measured by deposits in the institutions located within the jurisdiction of the county, city or urban county government at a rate not to exceed twenty-five thousandths of one percent (0.025%) of the deposits if imposed by counties and cities and at a rate not to exceed fifty thousandths of one percent (0.050%) of the deposits imposed by urban county governments.
<b>Manufacturing Machinery</b>	KRS 132.020(1), 132.200(4)	15 cents (per \$100 of assessment).	State rate only.
<b>Margin Accounts</b>  (See <b>Brokers' Accounts Receivable</b> )	KRS 132.060, KRS 132.090	25 cents (per \$100 of assessment).	State rate only.

**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Mobile Homes</b> (Real Property)	KRS 132.751	Subject to annual adjustment. Taxed at real estate rate.	Subject to full local rates.
<b>Motor Vehicles</b>	KRS 132.487	45 cents (per \$100 of assessment).	Full local rates. Collected upon registration.
<b>Historic Motor Vehicles</b>	KRS 132.020	25 cents (per \$100 of assessment)	State rate only.
<b>Pollution Control Facilities</b>	KRS 132.020(1), 132.200(9)	15 cents (per \$100 of assessment).	State rate only.
<b>Public Warehouses</b> Goods held for sale except goods in transit  Goods in transit to an out-of-state destination within six months	KRS 132.020(10)  KRS 132.095	5 cents (per \$100 of assessment).  Exempt.	Full local rates.  Special taxing districts only.
<b>Radio, Television and Telephonic Equipment</b>	KRS 132.020(1), 132.200(5)	15 cents (per \$100 of assessment).	State rate only.
<b>Railroads (Intrastate)</b>	KRS 132.020(11)	10 cents (per \$100 of assessment both real and tangible).	Multiplier applied to local rates. Multiplier subject to annual adjustment.
<b>Raw Materials and Products in Course of Manufacture</b>	KRS 132.020(10), 132.200(4)	5 cents (per \$100 of assessment).	State rate only.
<b>Real Estate not Elsewhere Specified</b>	KRS 132.020(1)	Adjusted annually (by July 1) per KRS 132.020(8). The state real estate rate was 15.7 cents for 1997, 15.3 cents for 1998, 14.8 cents for 1999, 14.1 cents for 2000, and 13.6 cents (per \$100 assessment) for 2001.	Full local rates.
<b>Recreational Vehicles</b>	KRS 132.730, 132.751	Classification depends on permanency of location. 45 cents (per \$100 of assessment).	Subject to full local rates.
<b>Recycling Machinery</b>	KRS 132.020(1), 132.200(16)	45 cents (per \$100 of assessment).	State rate only.
<b>Retirement Plan or Profit-Sharing Plan Tax</b>	KRS 132.043	0.1 cent (per \$100 of assessment).	State rate only. Taxable to individual participant.
<b>Savings and Loan Associations (Domestic)</b> (Foreign included effective January 1, 1990)	KRS 136.300(1), KRS 136.310(1)	10 cents (per \$100 of assessment).	State rate only.

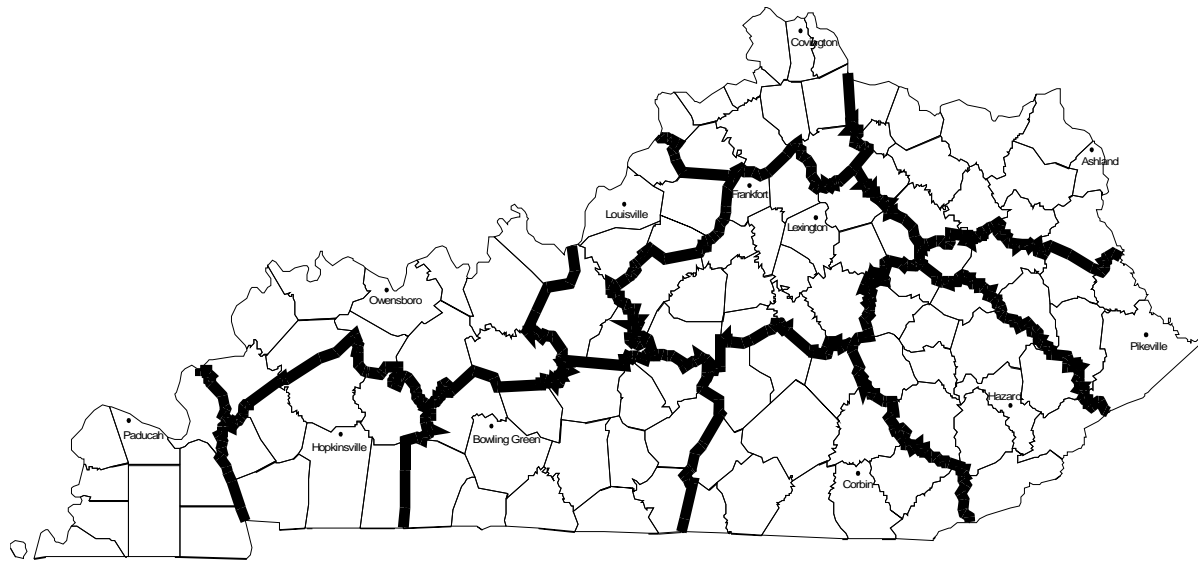


**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Racing Taxes: (continued)</b> <b>(3) Pari-Mutuel Tax</b>	(3) KRS 138.510 et seq.	<p>(3) 3.5 percent of total wagered at all thoroughbred tracks under Kentucky Racing Commission jurisdiction with average daily handle of \$1.2 million or more; 1.5 percent if average daily handle is less than \$1.2 million.</p> <p>3.75 percent of total wagered at all standardbred tracks under Kentucky Racing Commission jurisdiction with average daily handle of \$1.2 million or more; 1.75 percent if average daily handle is less than \$1.2 million.</p> <p>3 percent of telephone account wagering and the total wagered at "receiving" tracks.</p> <p>For fiscal year ending 6/30/2001, tracks with an average daily handle of \$1,200,000 or more are allowed a tax credit of \$6,000 per racing day.</p> <p>For fiscal year ending 6/30/2001, tracks with a total handle on live racing of \$250,000 or less pay 2.5 percent on telephone account wagering, intertrack wagering, and simulcasts.</p>	<p>(3) Excise tax is imposed on every person, corporation or association which operates a horse race track at which betting is conducted.</p> <p>Excise tax is also imposed on receiving tracks participating in intertrack wagering on simulcast races.</p> <p>Average daily handle is computed from the amount wagered at the <b>host</b> track, excluding money wagered at receiving tracks and all <b>telephone account</b> wagering.</p> <p>A portion of the pari-mutuel tax is allocated to the following:</p> <ul style="list-style-type: none"> <li>• Equine Drug Research</li> <li>• Equine Industry Program</li> <li>• Higher Education Equine Trust and Revolving Fund</li> <li>• Thoroughbred Development Fund</li> <li>• Standardbred, Quarterhorse, Appaloosa and Arabian Development Fund</li> </ul> <p>Reported and paid weekly.</p>
<b>Rural Cooperative Annual Tax</b>	KRS 279.200, 279.530	\$10.	Annual payment by corporations (RECCs and RTCCs) formed under KRS Chapter 279 in lieu of certain taxes.
<b>Sales and Use Taxes</b>	KRS 139.010 et seq.	<p>Sales tax ..... 6 percent</p> <p>Use tax ..... 6 percent</p>	<p>Sales tax is imposed on the retailer for the privilege of making retail sales of tangible personal property or taxable services within Kentucky.</p> <p>Use tax is imposed on the use, storage or other consumption in the state of tangible personal property purchased for use, storage or other consumption in this state.</p> <p>Use tax is imposed on construction machinery and equipment brought into this state for the purpose of making improvements to real property.</p> <p>There are statutory exemptions.</p>
<b>Waste Tire Fee</b>	KRS 224.50-868	\$1 per tire sold at retail.	Applies to the retail sale of new motor vehicle tires sold in Kentucky. Does not apply to new cars brought into the state for sale or use. Sales of recapped tires are exempt from the fee.
<b>Withholding (Individual Income Tax)</b>	KRS 141.010 et seq.	Deduction from salaries or wages based upon formula or tax tables.	Employers are required to withhold individual income tax from payment of wages or salaries each pay period. Withholding tables and formulas are provided for common pay periods.



# KENTUCKY TAXPAYER SERVICE CENTERS



• Taxpayer Service Center

— District Boundary

**Ashland, 41101-7670**

134 Sixteenth Street  
Telephone: (606) 920-2037  
Fax: (606) 920-2039

**Bowling Green, 42104-3278**

201 West Professional Park Court  
Telephone: (270) 746-7470  
Fax: (270) 746-7847

**Central Kentucky**

200 Fair Oaks Lane, First Floor  
Frankfort, 40620  
Fax: (502) 564-8946

**Corbin, 40701-6188**

15100 North US25E  
Suite 2  
Telephone: (606) 528-3322  
Fax: (606) 523-1972

**Frankfort, 40620**

200 Fair Oaks Lane, Second Floor  
Individual Income Tax Branch  
Telephone: (502) 564-4581  
Fax: (502) 564-3685

**Hazard, 41701-2179**

233 Birch Street  
Telephone: (606) 435-6017  
Fax: (606) 435-6018

**Hopkinsville, 42240**

181 Hammond Drive  
Telephone: (270) 889-6521  
Fax: (270) 889-6563

**Louisville, 40202-2446**

620 South Third Street  
Suite 102  
Telephone: (502) 595-4512  
Fax: (502) 595-4205

**Northern Kentucky**

Turfway Ridge Office Park  
7310 Turfway Rd., Suite 190  
Florence, 41042-1385  
Telephone: (859) 371-9049  
Fax: (859) 371-9154

**Owensboro, 42302**

401 Frederica Street  
Building C, Suite 201  
Telephone: (270) 687-7301  
Fax: (270) 687-7244

**Paducah, 42001-4024**

2928 Park Avenue  
Clark Business Complex, Suite G  
Telephone: (270) 575-7148  
Fax: (270) 575-7027

**Pikeville, 41501-1275**

Uniplex Center, 126 Trivette Drive, Suite 203  
Telephone: (606) 433-7675  
Fax: (606) 433-7679